

Canada Oil Industry Response to War in Ukraine (Mar. 27, 2022)

- Assume that every incremental barrel of oil produced in Western Canada and Newfoundland will displace one barrel of oil incoming to Eastern and Central Canada, particularly Saint John, NB, and Montreal refineries. Canada imports roughly 475,000 to 675,000 barrels per day (bpd). Two-thirds to three-quarters are from the USA. Overseas imports are ~160,000 to 250,000 bpd.
- 2. Every displaced barrel frees up a barrel that can go to Europe instead of Canada.
- 3. Federal and provincial governments need to suggest, cajole and implore oil producers to increase oil production across the spectrum, but particularly in light oil.
 - a. Oil companies should shift their laser focus on dividends and share buybacks to increasing vendor workforce wages to attract people to the industry. There are lots of idle service rigs in Saskatchewan, but not enough staff to man them all. This is why the pay must go up substantially. They will still make lots of money, just not as much.
 - b. Additional service rigs will allow for increased production through workovers. This is the lowest hanging fruit to increase incremental production in the quickest time.
 - c. No tax incentives should be required. WTI is US\$110 and WCS is \$101 per barrel. They will be making plenty of money and should not require additional incentives.
 - d. There are many drilling rigs in Saskatchewan that did not work this winter. Despite high oil prices, many companies, including Cenovus and Crescent Point, had dramatically reduced drilling programs. This needs to be reversed.
 - e. Enhanced oil recovery, such as waterfloods, can be implemented to boost production
- 4. The argument has been "We don't have pipelines to tidewater." The reality is by 2014, Saskatchewan had enough crude-by-rail infrastructure in place to ship every barrel we produce by rail, if we chose to. This needs to be reactivated to ship additional, incremental oil to Central and Eastern Canada. A typical crude-by-rail train is around 70,000 bbls. Facilities here include:
 - a. Crescent Point Stoughton 45,000 bpd
 - b. Altex Lashburn 88,000 bpd
 - c. Altex Unity 29,000 bpd
 - d. Plaines All American Kerrobert 80,000 bpd
 - e. Kindersley Unknown but sizeable.
 - f. Additional sites https://www.oilsandsmagazine.com/projects/crude-oil-by-rail
 - g. Total 461,000 bpd province-wide if all implemented/reactivated
- 5. Alberta has also built sizeable crude-by-rail facilities including loop tracks at Edmonton, Hardisty and Bruderheim. Total 802,000 province-wide if all implemented/reactivated
- 6. Manitoba has an idle 60,000 bpd facility at Cromer meant for Saskatchewan and Manitoba oil. It is directly tied to the Westspur System from southeast Saskatchewan.
- 7. Additional rail tankers and engines will need to be built and crewed.
- 8. Start by shipping incremental oil by rail to Montreal, and then St. John. Eventually all incoming tanker traffic will be displaced. At this point, Canada has become energy independent, and we have freed up 675,000 barrels from the world market for Europe. Russia 4.5 million bpd to Europe.
- 9. The same hardware that offloads oil from tankers should be capable, with minimal work, of loading tankers. As our production increases, we start exporting oil to Europe via tanker.
- 10. Concurrently, we build the Energy East Pipeline, or at least parts of it.
 - a. TC Energy has all the plans for Energy East sitting in storage, including all the surveys.

- b. All the pipe from Hardisty to Kingston is already in the ground. When TC Energy built the Alberta portion of Keystone XL, they built it from Hardisty to the Bindloss Pump Station near the Saskatchewan border, including two pumping stations. That pump station is where Energy East was supposed to begin using the existing TC Energy Mainline. It was no accident that TC Energy built that portion first. They clearly planned for this possibility.
- c. Unless they have already disposed of it, TC Energy should have in its possession all or most of the long-lead hardware for the pumping stations that were meant for Keystone XL. This includes the pumps, valves, pre-fab buildings, transformers, etc. Re-deploy this to build the pumping stations through Saskatchewan, Manitoba and Ontario. KXL had 41 pumping stations planned, so most, if not all, of that hardware should be available.
- d. The Cromer-Moosomin lateral would allow southeast Saskatchewan and Manitoba oil to be shipped on Energy East.
- e. Build the Kingston to Montreal portion of new pipe, at minimum. In the interim, crude by rail could be used from Kingston to Montreal and Saint John.
- f. Build the tanker terminal originally planned for Cacouna on the St. Lawrence River.
- g. Continue the pipeline to the Saint John Irving Refinery, and switch it to entirely Canadian slate.
- 11. If just one Russian submarine sinks just one tanker, the entire global shipping network will screech to a halt until adequate convoy protection can be arranged. Even that might not be possible, given the atrophied size of NATO navies and the length of time it takes to build modern naval vessels and crew them.
 - a. The very worst Atlantic convoy battle of World War II was convoy PQ17, which saw 23 of 34 ships sunk for a total of 130,000 gross tons sunk out of 200,000 tons that sailed. The *Ever Given*, the ship which blocked the Suez Canal was, by itself, 220,940 gross tons, or more than the equivalent of the entire PQ17 convoy. A singular VLCC supertanker is even larger, meaning that just one of these ships lost to a torpedo would be the equivalent of sinking an entire WWII convoy.
 - b. If this were to happen, Eastern and Central Canada energy security could be in peril if inbound tanker shipments are stopped.
 - c. If one of the shuttle tankers from Canada's offshore platforms to Newfoundland were to be sunk, it could entirely shut down offshore oil production. An occasional Russian sub off the Grand Banks would be able to stop all production by firing just one shot. Russia has lots of subs.
 - d. Even if we export nothing to Europe, Canadian energy security has now become a paramount consideration.
- 12. In summation:
 - a. Increasing Canadian oil production and displacing imported oil results in Canadian energy security in a world where energy security is now everything. We are taken care of and cannot be threatened.
 - b. Every displaced ocean-going barrel becomes one more barrel available for Europe.
 - c. Once we displace all incoming oil, we can begin exporting additional barrels to Europe, with the caveat that anything on the high seas is now at risk.

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