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## Public Infrastructure to Pay the Rich



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## Public Infrastructure to Pay the Rich

The U.S. and Canadian governments are ramping up pay-the-rich schemes surrounding infrastructure projects and the military. They openly speak of aggressively competing and even going to war with those countries such as China that are rapidly transforming their economies from petty to industrial mass production and lifting their peoples out of poverty and introducing modern education.

President Biden is pushing through Congress a \$2.3 trillion infrastructure scheme to pay the rich, in addition to his already gigantic military budget. The upcoming Trudeau/Freeland federal budget is expected to contain similar plans to augment the police and military powers and fund infrastructure



projects to pay the rich and, in doing so, borrow billions from global institutional moneylenders who will drain value out of the economy and Canada for decades to come.

It is important to take stock of what these infrastructure projects are and redouble our efforts to oppose pay-the-rich schemes as well as the militarization of the economy and the nefarious consequences of its integration into the U.S. economy and the U.S. imperialist striving for world hegemony.

***Organize for a New Direction for the Economy!  
Self-Reliance and Control by Canadians Is the Way to Go!  
Stop Paying the Rich!  
Increase Investments in Social Programs!  
Make Canada a Zone for Peace by Establishing an Anti-War Government!***

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## Sorry Tale of the Trans Mountain Pipeline Expansion Project



**Vancouver demonstration in opposition to the Trans Mountain expansion following the Trudeau government's announced purchase of the pipeline, September 8, 2018.**

Opposition to the Trudeau government's purchase of the Trans Mountain pipeline and the construction of a twin pipeline, the Trans Mountain Expansion Project (TMEP), is growing in intensity with opponents bravely facing the violence of the state. The resistance has been bolstered by recent economic research carried out at Simon Fraser University in Vancouver that proves the government purchase was a scam from the beginning and the construction is a colossal waste of public money, not to speak of the environmental damage it portends and the trampling of Indigenous rights.

The Trudeau government used mass media disinformation to push through its scheme to purchase Trans Mountain from Kinder Morgan in 2018 for \$4.4 billion. Cries that it was necessary to move Alberta oil to tidewater to make it available to purchasers in Asia permeated the monopoly-owned media. *TML Weekly* spoke up against it, pointing out that the entire thing was a scam to pay the rich and further integrate Canada into the U.S. war economy. The government did not permit the discussion of any alternative. It did not explain why the mainly U.S. investors in Kinder Morgan



were eager to sell Trans Mountain and the TMEP and what possible good would come from a government purchase. Hysteria was spread suggesting the Alberta ruling elite would revolt and seek to secede if the project were rejected.

The government, as representatives of the global oligarchs, orchestrated an atmosphere that promoted its plan to pay anxious Kinder Morgan investors and funnel billions to construction cartels. The mainly U.S. investors were relieved of a 65-year-old pipeline and an expansion project doomed as a money loser from the start; and global construction cartels were happy to receive billion dollar cost-plus contracts to boost their fortunes. The deal would assure Alberta heavy oil for the numerous refineries in Washington State and California, which supply the energy needs of the U.S. military's massive presence stretching from Puget Sound just south of Canada to San Diego just north of Mexico and across the Pacific to Asia.



Through the pipeline project, the government handed lucrative cost-plus contracts to global construction cartels such as Ledcor. As with all government-contracted projects that pay private global cartels to construct public infrastructure, the original estimate and agreed price of production has ballooned -- in this case from \$5.4 billion when it was unveiled by Kinder Morgan in 2014 to the current estimate of \$12.6 billion -- and exposed the project as yet another sordid pay-the-rich scheme. In human terms, the construction has already cost one worker his life and injured others, resulted in the beating and jailing of protesters, and seen the refusal to negotiate nation-to-nation agreements with the many Indigenous peoples along the route.

### **Not in Canada's Public Interest! Shelve the Project!**



After an extensive benefit cost analysis, including looking at possible benefits to the private energy monopolies, the researchers at Simon Fraser University conclude emphatically, "**continuing construction of TMEP is not in Canada's public interest and TMEP should be shelved.**"

While the Simon Fraser study does not deal with the issue of Canada's integration into the U.S. war economy, the Communist Party of Canada (Marxist-Leninist) concurs with its conclusion. It corroborates working people's experience that such pay-the-rich schemes are a scourge on the country and examples of the corruption and criminality of the ruling elite who are not fit to govern. Canadians have a social responsibility to sever the ties that bind our resources and many sectors of the economy to the U.S. war machine.

A new direction is possible, one that uses the country's bountiful natural resources for the common good of humanity beginning with a self-reliant peaceful economy under the control of Canadians that utilizes the value to humanize the social and natural environment and not destroy it.

*(Photos: WF, D. Sprenger, A. Appledorf)*

# Simon Fraser University's Research into Trans Mountain Project



Protest outside the Vancouver offices of the federal Ministry of the Environment and Climate Change, March 18, 2021.

Researchers at Simon Fraser University in Vancouver have proved what many suspected from the beginning: the Trudeau government purchase of Trans Mountain (TM) pipeline and the rights to construct a twin pipeline (TMEP) were from the get-go schemes to pay the rich and further integrate Alberta heavy oil into the U.S. war economy.

The researchers write: "The Government of Canada has provided no publicly accessible evaluation of its decision to purchase TM and build TMEP. Given the magnitude of the public expenditure (\$4.4 billion to purchase TM from Kinder Morgan and the currently estimated \$12.6 billion cost to build TMEP), the failure to provide a public evaluation is contrary to accepted principles of public accountability."

The SFU researchers write in conclusion:

"Our financial impact analysis concludes that escalating capital costs, new climate change policies, and construction delays will negatively impact the financial viability of TMEP. The Government of Canada's purchase of TM, completion of TMEP, and eventual divestment of the pipeline system will result in a net financial loss to the federal government (and to taxpayers) between \$2.1 billion and \$6.9 billion.

"... Our full project BCA (Benefit Cost Analysis) concludes that *the decision to approve and build TMEP will result in a net cost to Canada under base case assumptions of \$11.9 billion. The net cost estimates range between \$8.3 billion and \$18.5 billion and there is no likely scenario in which TMEP will generate a net benefit to Canada.*

"... The project completion BCA, which assesses the benefits and cost of completing the partially built TMEP by omitting sunk costs, shows that completing construction of TMEP will result in net cost to Canada between \$3.2 billion and \$13.3 billion. *Therefore, continuing construction of TMEP is not in Canada's public interest and TMEP should be shelved.*"



(Photos: WF, Climate Convergence)



# Evaluation of the Trans Mountain Expansion Project



**Banner drop, Vancouver April 8, 2021.**

*Below are excerpts from the executive summary of "Evaluation of the Trans Mountain Expansion Project" by Thomas Gunton (PhD), Chris Joseph (PhD), Daniel Dale (MRM) of the School of Resource and Environmental Management at Simon Fraser University. The report was published in March 2021.*

## **Purpose**

1. The purpose of this report is to provide an independent evaluation of the Government of Canada's decision to purchase Trans Mountain (TM) and build the Trans Mountain Expansion Project (TMEP). [...]
2. In May 2013 TM submitted its application to the National Energy Board (NEB) seeking approval of TMEP to twin an existing pipeline running from Edmonton, Alberta to Burnaby, British Columbia, to increase oil transportation capacity from 300k bpd to 890k bpd, and construct a marine terminal to load oil tankers to ship oil from Vancouver to Pacific Rim markets.
3. In May 2016 the NEB issued its report recommending that the federal government approve TMEP and on November 29, 2016 the federal government approved TMEP.
4. In May 2018 Kinder Morgan announced that it would halt construction of TMEP due to increasing project risks. Shortly after Kinder Morgan's announcement, the federal government announced its intention to purchase TM and the acquisition was completed in August 2018. [...]

## **Deficiencies in Government Evaluation of TMEP**

7. The NEB's 2016 and 2019 evaluation of TMEP to determine whether it is justified and in the public interest contains a number of deficiencies including:
  - a. failure to provide a comparison of benefits and burdens in accordance with well-established principles such as benefit cost analysis that can be used to assess whether TMEP is in the public interest;
  - b. omission of significant potential costs associated with building TMEP (e.g., excess pipeline capacity costs, mitigation costs such as the Oceans Protection Plan, and various environmental costs);

- c. unjustified conclusion that the risks of oil spills from TMEP are low and that the risk is acceptable;
- d. failure to complete a comparative evaluation of alternative pipeline options;
- e. failure to complete an overall supply and demand analysis for oil pipelines to determine if TMEP is needed;
- f. overestimation of TMEP benefits through the use of gross economic impacts instead of net economic benefits;
- g. failure to update the economic evaluation of TMEP in its 2019 report (NEB, 2019) from its 2016 report (NEB, 2016) to take into account the significant changes that had occurred since completion of the 2016 report including weaker oil markets, rising construction costs of TMEP, and advancement of other pipeline projects that are alternatives to TMEP.

8. The Government of Canada has provided no publicly accessible evaluation of its decision to purchase TM and build TMEP. Given the magnitude of the public expenditure (\$4.4 billion to purchase TM from Kinder Morgan and the currently estimated \$12.6 billion cost to build TMEP), the failure to provide a public evaluation is contrary to accepted principles of public accountability.

### **Evaluation of TMEP**

[...] 10. The evaluation assesses recent developments that impact the economic viability of TMEP including:

- a. advancement of alternative oil transportation projects that will add 1,640kbpd of Western Canada Sedimentary Basin (WCSB) oil export capacity, including: Enbridge Line 3 (370 thousand barrels per day (kbpd)), other Enbridge expansions (550kbpd), Keystone (50kbpd), TMEP (590), and Rangeland (80kbpd).
- b. a more than doubling of the costs of TMEP from the original estimate of \$5.4 billion in 2013 to the current estimate of \$12.6 billion (PBO, 2020);
- c. significantly weaker oil markets due to COVID-19 and new climate change policies announced by Canada in December 2020 that lower the need for new pipeline capacity; and
- d. The cancellation of the Keystone XL pipeline by the Biden administration.

### **Supply and Demand for Pipelines**

[...] 11. To assess the need and economic viability of TMEP, we completed a supply and demand analysis for WCSB oil transportation services ...

- a. The 2020 Canada Energy Regulator (CER) Evolving Scenario forecast assumes that new climate policies will continue to be implemented at the historic rate. Under the CER Evolving Scenario forecast neither TMEP nor Keystone XL are required. If TMEP is built along with the other proposed expansions (excluding Keystone XL), there would be just over 900kbpd of excess pipeline capacity in 2030.
- b. It is important to note that the CER Evolving Scenario forecast may overestimate future WCSB oil production because the climate change measures underlying the Evolving Scenario will not achieve Canada's climate change targets and are not as aggressive as the new climate plan announced by Canada in December 2020. The Evolving Scenario forecast is also higher than other forecasts such as those by the International Energy Association

(IEA, 2020b). Consequently, oil production may be lower and excess pipeline capacity higher than forecast under the Evolving Scenario.

c. The second CER forecast (the Reference Scenario) assumes that no new climate policies are implemented. Given Canada's announcement of new climate policies in December 2020, the assumption of no new climate policies in the CER Reference Scenario is incorrect and the Reference Scenario forecast is therefore no longer valid. Nonetheless, we show that even under this overly optimistic forecast, the Enbridge expansions (Line 3 plus other proposed expansions) and other proposed pipeline enhancements (Rangeland, Express, and existing Keystone) will meet Western Canadian transportation needs to 2028 without building TMEP or Keystone XL. In 2028, some additional capacity may be required under this scenario.

d. Although some excess pipeline capacity is beneficial, the magnitude of excess capacity resulting from the construction of TMEP along with other proposed projects (excluding Keystone XL) will impose a significant cost on Canada's oil sector through increased tolls to cover the costs of redundant pipeline capacity and on the Canadian public through reduced tax revenues due to lower oil sector profits. The NEB did not include the costs of this excess capacity in its evaluation of TMEP costs and benefits.

### **TMEP Financial Risks**

12. TMEP is somewhat protected from the risks of weaker oil markets and excess pipeline capacity because it has long term contracts for 80 per cent of its capacity. Consequently, much of the adverse impacts of excess pipeline capacity will be borne by other pipeline systems, such as Enbridge, which will lose oil shipments to meet contractual commitments on TMEP. However, weaker oil markets and the forecast excess pipeline capacity increase risks for TMEP in the following ways.

a. Securing spot shipments for the 20 per cent of TMEP capacity not under long-term contracts will be impaired by excess pipeline capacity. Enbridge is in the process of converting 90 per cent of its capacity to long-term contracts, which will remove about 2.7 million bpd of oil from potential spot shipments (Enbridge, 2020, p. 43). Based on Enbridge's analysis there will be very little oil that will be available for spot shipments after Enbridge converts to long-term contracts.

b. TMEP's ability to secure spot shipments will be further constrained by the escalating capital costs that will result in higher tolls that will impair TMEP's ability to compete with other lower cost pipelines such as Enbridge. The competitive position of TMEP is also impaired by the fact that oil producers will prefer to use pipelines such as Enbridge that ship directly to the U.S. Gulf where heavy oil prices are currently higher than prices in Asia.

c. Revenue derived from the 80 per cent contracted space on TMEP is also at risk due to the deteriorating financial position of oil producers that may impair their ability to honour their long-term contracts. Further, given the weakening of oil markets, Enbridge's shift to long-term contracts, and rising TMEP shipping costs, there is an increasing risk that shippers will not renew their long-term contracts on TMEP after they expire, thus increasing the risk of declining volumes and revenue. [...]

13. [...] The Parliamentary Budget Officer estimated that stronger climate policies could result in the federal government incurring a net loss of between \$0.1 billion and \$3.5 billion on TMEP. [...]

15. The results from the financial impact analysis of the Government's purchase and construction of TMEP show that TMEP will result in a net *loss* to the federal government ranging *from \$2.1 to \$6.9 billion* if the government follows its stated plan to sell the TM assets once TMEP is

operational. There are also additional costs to government including potential corporate income tax losses due to higher depreciation charges associated with the incremental capital costs of TMEP plus an increase in government expenses generated by the Oceans Protection Plan to mitigate TMEP risks. [...]

## Benefit Cost Analysis

16. [The full report includes two benefit cost analyses (BCAs).]

a. The full project BCA results show that the decision to approve and build TMEP will result in a **net cost to Canada of \$11.9 billion** under base case assumptions. The net costs could range between \$8.3 billion and \$18.5 billion under alternative scenarios and there is no likely scenario under which TMEP would generate a net benefit for Canada even when option value benefits of access to new markets are included.

b. The project completion BCA results are relevant for determining whether there is a net benefit to Canada of completing TMEP now that it is partially constructed. The results show that continuing construction and completing TMEP will result in a **net cost to Canada of \$6.8 billion** under base case assumptions and net costs could range from \$3.2 billion to \$13.3 billion under alternative scenarios.

c. The project completion BCA results show that Canada would be better off terminating construction of TMEP. The principal reason for this is that the oil that will be transported on TMEP could be transported on other pipelines without incurring the remaining costs of constructing TMEP. Consequently, additional spending on TMEP will not generate any incremental benefits.

d. Shelving TMEP has minimal downside risk because if demand for new transportation projects is significantly higher than forecast or other proposed pipeline expansions do not proceed, there would be sufficient lead time to restart TMEP or build other projects to accommodate increased demand. Proceeding with construction of TMEP under current market conditions is high risk because once the investment is made it is a sunk cost that cannot be recovered.

17. One of the primary reasons that TMEP would result in a large net cost to Canada is because building TMEP would create excess pipeline capacity. The costs of this excess capacity will be borne by other pipeline operators whose revenues will be reduced by the reallocation of oil shipments from existing pipelines to TMEP to fulfill shipping contracts signed before the downturn in oil markets. Oil producers will also incur higher costs to cover toll increases required to finance excess capacity and governments will lose tax revenue due to lower oil company profits.

18. A second key reason that the Trans Mountain Expansion Project will result in a net cost to Canada is that the construction costs have more than doubled from \$5.4 billion in 2013 to the current estimate of \$12.6 billion, and costs could increase further. The tolls approved in the final cost review in 2017 were set to cover capital costs of only \$7.4 billion. Therefore, the toll revenue will not be sufficient to cover the estimated \$12.6 billion capital cost.

19. A further reason that TMEP will result in a net cost to Canada is due to the environmental risks it entails, including the risk of marine oil spills in British Columbia and greenhouse gas emissions. The probability of a marine tanker spill over a 50-year operating period for TMEP is estimated to be between 43 per cent and 75 per cent. The costs of a tanker spill including passive use values are estimated at \$2.6 billion. The risks of a marine tanker spill would be avoided if other transportation options such as Enbridge pipeline expansions are used that do not require tanker transportation.



20. It is important to note that many environmental impacts of TMEP are not included in the quantitative benefit cost estimates because they are difficult to estimate in dollar terms. Inclusion of these environmental impacts would increase environmental cost estimates. To be consistent with the NEB's terms of reference, we have also omitted all environmental costs associated with the upstream production of oil and downstream consumption. These costs are significant and should be assessed as part of a comprehensive energy and climate change policy.

21. An alleged benefit of TMEP is that it will increase prices received by Canadian oil producers and reduce "discounting" of Canadian oil exports to the U.S. We evaluated this potential benefit and conclude that the analysis used by consultants (Muse Stancil) to TM to generate this benefit estimate is flawed and that it is highly unlikely that TMEP will generate a price benefit. Flaws in the analysis used by TM to forecast a price benefit are as follows:

a. The analysis relies on outdated oil production and pipeline capacity forecasts that assume that if TMEP is not built, WCSB oil would have to be shipped by higher cost rail to the U.S. Gulf. As the supply and demand analysis provided in this report shows, this assumption is incorrect.

b. The TM analysis uses a static model that does not take into account changes in refinery configurations and changes in the market destinations of oil shipments that would result from building TMEP. For example, the model incorrectly assumes that a reduction in WCSB shipments to the U.S. market will result in a net reduction in U.S. oil supply and an increase in oil prices received by Canadian producers. This fails to account for the fact that other oil producers would increase shipments to the U.S. to make up for the decline in Canadian shipments thus eroding any potential price increase.

c. The assumption of higher oil prices in Asian markets is inconsistent with the functioning of world oil markets that erode price differentials between markets by redirecting shipments to higher priced markets to equilibrate prices. Price differentials may persist due to market constraints over the shorter term, but over the last decade heavy oil prices have actually been higher in the U.S. Gulf than Asia. Consequently, using TMEP to redirect Canadian shipments from the U.S. to Asia could result in a lower price relative to shipping to the U.S. Gulf.

d. The flaws in TM's modeling of the alleged price benefit of TMEP are confirmed by the fact that the price discount on Canadian oil shipped to the U.S. has actually declined over the last fifteen years despite a significant increase in Canadian shipments to the U.S. This directly contradicts the model forecast that higher shipments to the U.S. result in lower prices for Canadian oil.

## **Conclusions**

22. We conclude that:

a. The Government of Canada has not provided a public evaluation of its decision to purchase TM and build TMEP.

b. There have been significant changes since the completion of the NEB report on TMEP including emergence of new oil pipeline projects, rising TMEP construction costs, lowering of oil production forecasts, new climate change policies, and the cancellation of Keystone XL. As a result of these changes, the conclusions of the 2016 (and 2019) NEB reports are no longer valid and cannot be relied on to justify building TMEP.

c. Our financial impact analysis concludes that escalating capital costs, new climate change

policies, and construction delays will negatively impact the financial viability of TMEP. The Government of Canada's purchase of TM, completion of TMEP, and eventual divestment of the pipeline system will result in a net financial loss to the federal government (and to taxpayers) between \$2.1 billion and \$6.9 billion.

d. Our full project BCA concludes that *the decision to approve and build TMEP will result in a net cost to Canada under base case assumptions of \$11.9 billion. The net cost estimates range between \$8.3 billion and \$18.5 billion and there is no likely scenario in which TMEP will generate a net benefit to Canada.*

e. The project completion BCA, which assesses the benefits and cost of completing the partially built TMEP by omitting sunk costs, shows that completing construction of TMEP will result in net cost to Canada between \$3.2 billion and \$13.3 billion. *Therefore, continuing construction of TMEP is not in Canada's public interest and TMEP should be shelved.*

For the full report [click here](#).



(Photos: Climate Convergence)

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