

*Adjournment Debate*

A headline in the *Edmonton Journal* of March 5, 1977, speaks of Lloydminster oil as being a key target. According to the article a heavy oil plant is being proposed. A tremendous amount of interest is being shown in this resource. I think the minister has failed to give a clear answer to the proposal advanced by the consortium of 20 companies for the establishment of a heavy oil upgrading facility. The proposal was submitted to the minister on January 31, 1977. Time is running out, Mr. Speaker. If this facility is to be in place by 1980, we need to know the ground rules, and some important issues ought to have been clarified by the end of the first quarter of 1977. That first quarter is behind us, and time marches on.

I point out that we are considering an important question. We cannot use this particular resource unless it is upgraded. The producers have indicated their interest and desire to spend risk capital on developing this important resource. They propose to establish a 100,000-barrels-a-day oil upgrading facility, modular in design to allow for future expansion. It is estimated that the facility will cost between \$500 million and \$700 million. It will be located in that particular area; the Hardisty terminal is close by. Further, there is every assurance that the current supply of 100,000 barrels per day of crude is available for the establishment of a viable and feasible facility.

The resources are there. We need the energy, but the major obstacle is that under existing royalty and tax structures, the project is not economically feasible, which means it is not feasible unless there is some modification. That point is the gist of the feasibility study which has been presented to the Minister of Energy, Mines and Resources.

Basically, it contains two provisions. First, the government of Alberta will have to permit a processing allowance similar to that available with respect to natural gas, to be deducted from the value of the upgraded product. Second, the Government of Canada and the government of Alberta should jointly agree upon an increased capital cost allowance for the project. This is vital, since only with such a measure can the original investment and interest be paid back within seven or eight years after start up, this pay-back period being the condition to be agreed to before the project can be financed.

One may ask, what will be the ultimate cost to the taxpayers of Canada? If all the 100,000 barrels a day of heavy oil feedstock could be marketed without upgrading, the loss in taxes and royalties due to modifications made for the upgrading facility would be in the order of \$546 million for Alberta and \$399 million for the federal government, over 20 years. However, the proposed 100,000 barrels a day of heavy oil cannot be marketed without upgrading. In fact, more of the supply which would be directed to the upgrading facility would be diverted from other use, the result being not a loss in royalties and taxes, but a substantial gain—

**The Acting Speaker (Mr. Turner):** Order, please. I regret to interrupt the hon. member whose allotted time has expired.

• (2230)

**Mr. Maurice Dupras (Parliamentary Secretary to Minister of Energy, Mines and Resources):** Mr. Speaker, I appreciate the presentation of the hon. member for Vegreville (Mr. Mazankowski) and the fact that he did not make reference to the Quebec situation. Out of three opposition speakers on the "Late Show", he is the only one who did not mention the situation in Quebec. That is not my favourite subject. I am not obsessed by the situation in Quebec. I have not panicked yet, and I won't. I have heard so many experts on the Quebec situation in the past few days that I do not know if I am qualified to speak about it. In fact, I only reside in Quebec two or three days a week.

The province of Saskatchewan has important heavy oil resources. Currently, heavy crude petroleum represents about 70 per cent of the province's current productive capacity. Heavy crudes have been difficult to market in the past, hence the current interest in upgrading activity which would improve the marketability of the province's oil resources.

Upgrading heavy crudes removes the two main undesirable characteristics, namely, the low gravity and high sulphur. Once this is done the oil will be able to gain wider access to the domestic market. The present reliance on the seasonal demand of the asphalt market will be removed. Canadians will be provided with an additional source of crude supply to help meet the goal of self-reliance.

With these objectives and advantages in mind, there are at present at least two proposals for upgrading operations. Pacific Petroleum, with its partners, has proposed a 100,000 barrel a day facility to be located at Hardisty, Alberta. Husky Oil Limited has proposed a 50,000 barrel a day facility to be located at Lloydminster. Both proposals are in preliminary stages of discussion and examination of projected economics. Other proposals have also been raised. Preliminary economic evaluation work indicates that the economics are marginal at best based on current pricing. The cost estimates for a facility are in the order of hundreds of millions of dollars with no certainty in the present upgrading technology. Consequently the undertaking of an upgrading facility by either industry or government carries a considerable degree of risk.

The government is pleased with the initiative being taken by the various companies which are pursuing the upgrading option for development of our heavy crude oil resources. Officials are keeping in close touch with the companies on the various problems associated with this resource development. There are important questions of technology and crude oil price differentials involved, as well as fiscal arrangements, both federal and provincial, to be worked out for these multi-million dollar projects.

**The Acting Speaker (Mr. Turner):** Order, please. I regret to interrupt the parliamentary secretary, but his allotted time has expired. The motion to adjourn the House is now deemed to have been adopted. Accordingly, this House stands adjourned until tomorrow at 2 p.m.

Motion agreed to and the House adjourned at 10.35 p.m.