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MACKENZIE GAS PROJECT FUTURE CLOUDY TO FIRST NATIONS AND OIL PATCH

A briefing note by Hugh McCullum

OTTAWA -- Blazing headlines in some of the national press on the first day of the May long weekend left many oil patch experts, politicians and First Nations leaders in a state of confusion and denial.

First off on Friday, May 18, the pro-Conservative daily newspaper, *the National Post*, ran huge front page headlines claiming the federal government was interested in taking control of the \$16.2 billion Mackenzie Gas Project (MGP) by buying out the Imperial Oil-led consortium of oil companies. Indian Northern Affairs Minister Jim Prentice had received cabinet approval for a new national project to be called Pipeline-Canada, said the *Post*, in an exclusive story, citing sources close to the oil and natural gas industry as well as those in Prentice's inner circle.

For decades, now, the 1, 222-kilometre natural gas pipeline down the Mackenzie Valley has been a glimmering mirage on the horizon for the economic future of the NWT, linking Delta natural gas to Alberta's pipeline grid, perhaps even to fuel the controversial Alberta Tar Sands.

Politicians and pundits alike were astounded with the story and its prominence in a conservative newspaper. How could an ideologically right-wing Conservative government nationalize a private corporation and reimburse the partners for all the money they have spent so far? The government, said the *Post*, would buy off Imperial Oil, Conoco-Phillips and Royal Dutch Shell and take control of their part of the project, leaving Trans-Canada Pipelines to run it, along with its partner, APG, which has up to a one-third interest in the pipeline project supported by Trans-Canada.

The oil patch, based in Calgary in Prentice's federal riding, was in great confusion. By Saturday, May 18, Prentice had issued a flat denial of the *National Post*'s story but others close to the negotiations said, "that's damn accurate." The three oil companies, sources said, have already advised Ottawa that the MGP is effectively dead because it is uneconomic without big government tax breaks after cost estimates have run up to \$16.2 billion from \$7.5 billion just two years ago.

The APG was enthusiastic. Fred Carmichael, a Gwich'in First Nation leader and chairperson of the group, told the *Globe and Mail* newspaper from Inuvik, that the MGP was important to all the people of the North, especially the aboriginal people, "and I've made no bones about it: if Imperial Oil doesn't want to build this pipeline, then let them step out of the way and give us room to seek other interested parties." That would likely be Trans-Canada Pipelines, who has financed the APG so far.

Grand Chief Herb Norwegian, whose Dehcho First Nations (DFN) has not joined the APG, said it didn't matter much to him who owned the pipeline or who built it, the DFN would continue to pursue its land claims with Ottawa, based on its Dehcho Land Use Planning report under the Dehcho Process.

By the time the holiday was in full swing, Prentice was calling the newspaper report "nonsense" and "erroneous". He said in Calgary that no one from Imperial had suggested to him that the project was dead or that the three oil companies had threatened him with an ultimatum. Prentice has publicly and privately expressed great interest in the gas pipeline and is the federal minister charged by Prime Minister Stephen Harper with making sure the project goes ahead since the government says it is in the national interest.

But, Prentice admits his frustration at the slow pace of the negotiations and the size of MGP's request for billions of dollars in assistance. He is also frustrated with problems such as the cost overruns, First Nations opposition, and the oft-delayed regulatory reports from the National Energy Board (NEB) and the Joint Review Panel (JRP), which have pushed the proposed startup date back to 2014.

Imperial Oil also denied wanting out, although its spokesperson, Pius Rolheiser, said "negotiations with Ottawa are sensitive and confidential but Imperial remains committed to the project." But all sides admit the negotiations are at an impasse since the oil companies began pursuing Ottawa to take on an equity stake, after having quashed the idea in the past.

"This idea was not on the table before and we have to understand what it means," said Randy Meades, executive director of the federal project co-ordination secretariat of INAC, who reports directly to Prentice. He also admitted that once the story was leaked to the *National Post* the negotiations have been temporarily postponed.

Carmichael claims Ottawa is considering a partial buyout because Prentice believes the MGP is sound economically. "We're all business people and we're going to make sure there's a return. He alleged that Imperial wanted too high a return, somewhere around 25 percent profit on its investment. "Well, let me tell you, there are other companies out here, including APG, that are happy with much less than a 25 percent return." Carmichael also admitted that a federal stake in the project would "certainly help the APG with financing its up to one-third share of the project."

Imperial is 69 percent owned by the world's largest petroleum corporation, ExxonMobil Corp., headquartered in New York and Dallas, which has declared unprecedented profits over the last three financial quarters, each in excess of US\$10 billion, the highest profits in history of any corporation in the world. Prentice is reluctant to be seen providing huge subsidies to highly profitable oil companies and, say politicians both federally and in Alberta, feels Imperial has painted the Conservatives into a corner.

One source told CTV news “the federal cabinet, which means Harper and his second-in-command, Prentice, sees the Mackenzie pipeline as basin-opening initiative which is in the national interest and they are going to do whatever they have to do to move it forward.”

Politicians also reminded the media that the Liberal government did something similar, when in 2005, then Deputy Prime Minister Anne McLellan, an Alberta MP, since defeated in 2006, promised \$500 million over 10 years to address the socio-economic concerns of northern First Nations. McLellan also promised fiscal concessions of up to \$200 million to the MGP consortium with Canada taking a 20 percent stake but Imperial eventually rejected the offer.

Oil patch leaders have said they would like Ottawa to step into the pipeline project because they are dissatisfied with what Imperial Oil has done so far. Sources who would not be named, say the company created unnecessary animosity in its negotiations with the Dehcho, surprised the energy sector with its huge demands from the taxpayers and is seen to have inflated cost estimates. Imperial has also squeezed out others exploring the North by making it difficult to access the pipeline gathering system, so there are a number of players ready to step in should Imperial, possibly under pressure from its parent company, ExxonMobil, pull out. It is well known in the natural gas world that ExxonMobil has large gas deposits on the Alaska North Shore; it would eventually like to move down south, perhaps along the Mackenzie Valley, in a larger project than the MGP. But it is not ready to do so under the existing time frame.

Whatever the outcome of the negotiations with Ottawa, critics seem certain that political considerations outweigh energy policy. They point out that recent polls have the Conservatives a mere two points ahead of the Liberals, a position that would leave Harper in a minority position in any federal election this year.

Veteran political commentator Chantal Hebert told the CBC National recently that despite every effort, the Conservatives remain flat in the polls, “they are not going anywhere. Perhaps they need something big to push ahead.” Like a huge pipeline project.

The Conservatives, and Prentice are also vulnerable, say the pundits, over their stalled environmental policies, which polls show Canadian are not buying into. As well, Prentice has been scathingly critiqued by the Assembly of First Nations over what is called “its failed land claims policies.”

“Buying into the MGP with some sort of Crown Corporation would not be a real energy policy for Canada,” write Toronto energy columnist, Terence Corcoran, “It would be, above all, a Native buy-off policy, a job-creation policy, a make-work program and a political strategy to secure votes and seats in Parliament...It poses a monumental risk to the government and to Canada.”

The National Day of Action on June 29, launched by the Assembly of First Nations (AFN) to protest, among other things, the extremely slow movement by Prentice’s

department on settling more than 1,100 specific land claims. Having scrapped the \$5 billion Kelowna Accords signed between AFN and former Prime Minister Paul Martin, Prentice has little support among First Nations who suffer from low life expectancy, high prevalence of chronic disease, high suicide rates, poor housing and water and severe unemployment. Last year, Canada rejected a UN declaration affirming indigenous people be treated equally.

So far, First Nations' leaders say Prentice has ignored them and their demands for just and speedy settlement of specific land claims and other inequities and is also ignoring their plans for June 29. Some observers question whether his avid support for the MGP is a way of appeasing some First Nations while creating a huge project to support the natural gas guzzling Alberta Tar Sands which is one of the country's worst polluters of water and greenhouse gas emissions.

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