

Construction Best Practices XVII
“It’s Going to Get Better – We’d Better
Get Going”

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Shaw Conference Centre

Dr. Michael Percy

Where We Are Today – Conventional Wisdom

- ◆ U.S. and Europe in recession – the very worst since the Great Depression
- ◆ Canada is in recession – Central Canada in particular caught in backwash of U.S. downturn and long-term restructuring of its mature manufacturing sector
- ◆ Alberta entered recession in late 2008 but impact far less than in rest of Canada

Key Driver of Energy Prices

- ◆ Economic growth in China and India was key to sustaining high commodity prices and overall low inflation environment that defined the period 1990 - 2008

Alberta

Percentage Real GDP Growth

(2002 chain linked dollars)
(Statistics Canada 13-016-XIE; 2009-10 (f) by RBC)



Gross Fixed Capital Formation and Inventories as a share of Alberta GDP

(Chained (2002) dollars)
Statistics Canada 13-016 XIE



Inventory of Major Alberta Projects,

(projects over \$5 million recently completed, currently under construction or are proposed to start within 2 years)

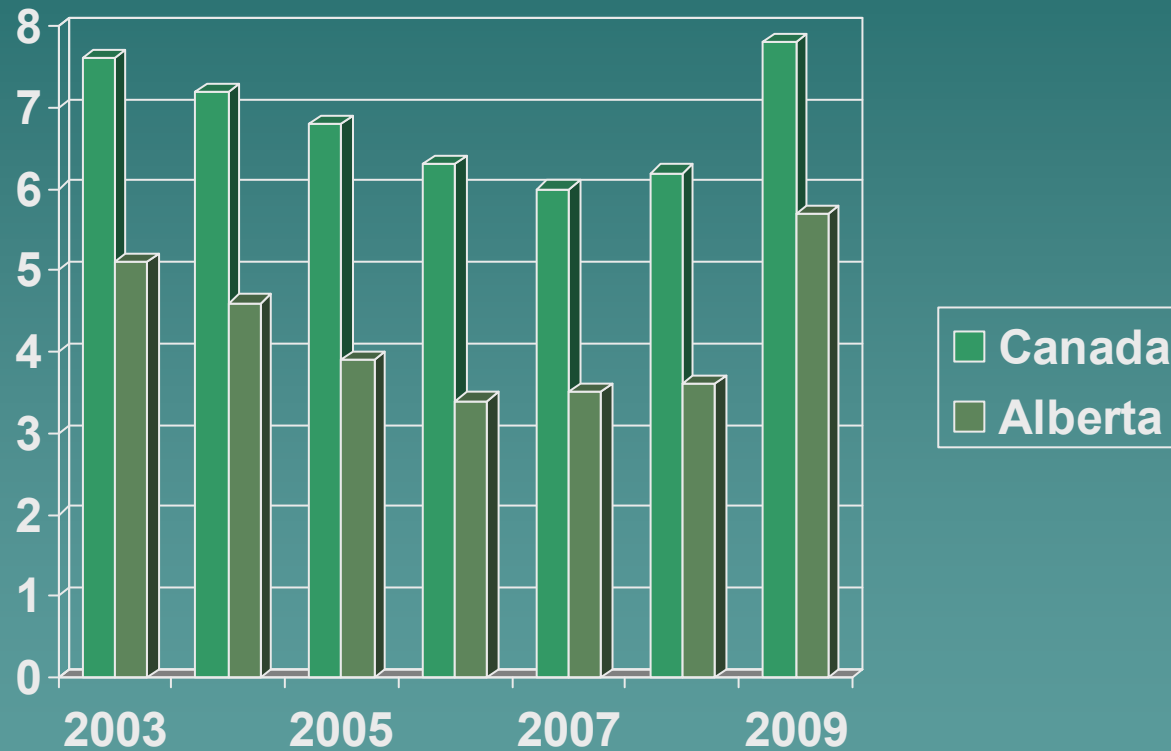
	Value of Projects			
	Billions\$			
	Oct/06	Nov/08	Feb/09	April/09
- Oilsands	\$90	\$172	\$157	\$131
- Infrastructure	\$13	\$21	\$20	\$19
- Institutional	\$11	\$14	\$13	\$14
sub-total	\$114	\$207	\$190	\$164
Total	\$148	\$279	\$262	\$234

www.alberta-canada.com/statpup/albertaConstructionProjects/)

Unemployment: Alberta/Canada

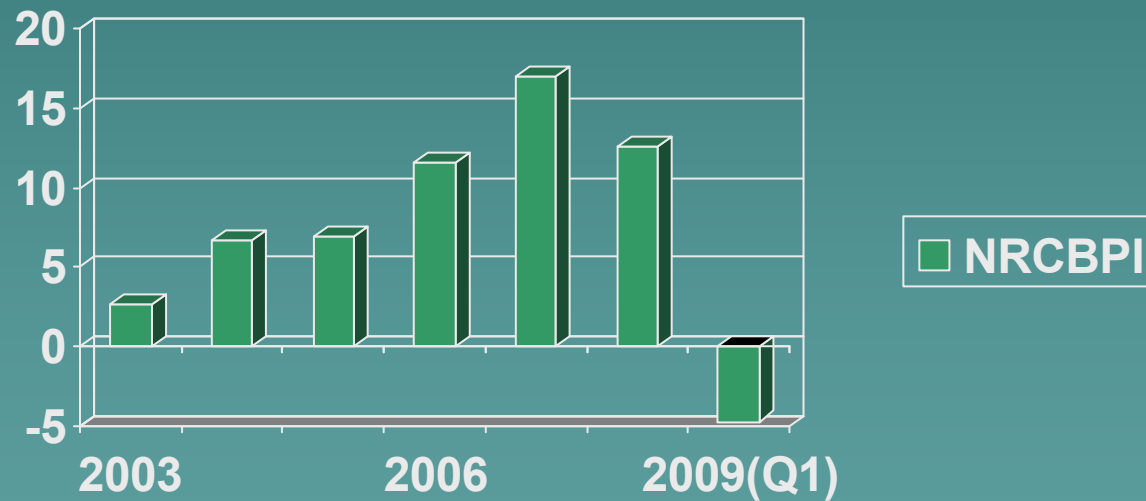
2003 -2009

(Statistics Canada 2003-08; RBC (f)2009)



Construction Costs

Annual % change non-residential
construction costs
(Edmonton CMA)




Oil Sands Break Even

- ◆ Sharp rise in break even in light of:
 - Rising material costs
 - Rising labour costs and skill shortages
 - Conventional wisdom now says 70\$ barrel WTI is now break even (before de-bottlenecking)

Energy Price Outlook

- ◆ WTI - \$55 to \$75 per barrel May 2010
- ◆ Some even more optimistic given low productivity levels of state-owned energy companies globally
- ◆ Natural gas prices flat at best at current levels
- ◆ Rigs drilling down 60.8% March 08-09

Project Risks Remain High

- ◆ Environmental regulations and pricing of carbon – when, how, and how much?
 - ◆ Construction costs remain high and productivity variable at best
 - ◆ Credit crunch and liquidity
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- A stylized silhouette of a mountain range in shades of teal, located at the bottom right of the slide.

Good News is that...

- ◆ Oilsands plants driven by longer term perspectives on oil prices not cyclical factors
- ◆ Supply chain of operating oil sands plants source of continuing demand
 - Plants are 24/7 operating entities – ¾ billion dollar expenditure on goods and services – much of it Red Deer North
- ◆ Province's expenditures on infrastructure much like countercyclical fiscal policy

Challenges

- ◆ Over and above global recession and its impact on energy prices and demand for Alberta exports we will see:
 - Provincial government will have to reduce growth of program expenditures
 - Likely to see deferral of upgrader/oilsands investments until three issues resolved:
 - ◆ Credit crunch is resolved
 - ◆ Canadian and U.S. environmental policies set out and costs identified
 - ◆ Provincial Bitumen policy set out

Challenges (2)

- ◆ Province (and likely joint EIAs) will assess cumulative impact of projects
- ◆ Pressures for full-cost accounting
- ◆ How do we price carbon?
 - Province prefers mechanisms which keep revenues in province – fund new technologies and efforts to adopt CCS
 - U.S. Administration appears committed to “Cap and Trade” → Cdn. federal govt. adopting same posture
 - ◆ Key issues – allocation of emissions base - free or auction
 - ◆ Exemptions

Engaging Environmental Organizations – Absolute Necessity

- ◆ Lessons to be learned from the forest sector – third party validation tops self-promotion
- ◆ Necessity of engaging key environmental groups
 - More established groups – well funded, business plan driven
 - Well-trained, highly motivated leadership who excel in communications
 - Need success to maintain credibility – what are the price-points?

Secular Trends

- ◆ Alberta will continue to be viewed as secure source of energy in North America and investments in oil sands will continue
- ◆ Globalization will continue to see any mature manufacturing or service activity move offshore → niche of Alberta and North America is in new technologies and human capital intensive production