

**Testimony of Peter Bowe  
President of Ellicott Dredge Enterprises, LLC**

**Before the House Committee on Small Business  
Subcommittee on Agriculture, Energy and Trade**

**Hearing on: Oil Sands Create US Manufacturing Exports**

**May 16, 2013**

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Good Morning, Chairman Tipton, and Ranking Member Murphy, and members of the Subcommittee on Agriculture, Energy and Trade.

My name is Peter Bowe. I am pleased to be with you here today to speak on behalf of my company, Ellicott Dredges, LLC, and the National Association of Manufacturers (NAM).

Ellicott Dredges, based in Baltimore, Maryland, is the oldest and largest U.S. manufacturer of dredging equipment. We built all of the dredges used in the original construction of the Panama Canal over a century ago. Since our founding in 1885 we have built over 2500 dredges with prices as high as \$30 million and as low as \$100 thousand. These dredges are used not just for canals and ports, and niche markets like beach restoration, but more often for mining and for environmental cleanups like lake desiltation or PCB removal, or case in point here, reclamation of tailing ponds from oil sands production in Canada. We export over half of our sales, selling to over twenty countries a year. Investment in infrastructure, especially energy infrastructure, accounts for much of our demand, and energy development often funds the investment needed to buy our equipment.

Today we have 200 employees in the US with factories in Baltimore and Wisconsin and two small factories in Europe. We employ skilled manufacturing positions, like mechanics and machinists, as well as dozens of degreed engineers.

So what does the Keystone pipeline have to do with us, and why do we care? For us, it's all about jobs, not construction jobs for the pipeline itself, but ongoing jobs every year for decades to come, all related to the production of oil from the Alberta oil sands deposits. This oil needs the Keystone pipeline.

The oil sands in Alberta are one of the largest markets worldwide for dredging equipment. Our dredges are used to rehandle the tailings generated by the mining process. Tailings are the wet waste which is a combination of clay, sand, and water after the oil-bearing bitumen has been removed. All the oil sands projects generate substantial amounts of tailings which are deposited into ponds. Oil sands producers have been criticized for water usage, but now, thanks to tailings reclamation, they recycle 85% to 90% of water used, and dredges are an integral part of the recycling process.

Alberta government regulations require the oil producers to reclaim these ponds, that is to restore the land to a self-sustaining condition. This is a substantial obligation which requires an investment of hundreds of millions of dollars annually. For example, Suncor, one of over a dozen oil sands producers, has said it will invest a billion dollars for tailings reclamation over a two year period.



Here is a picture of the type of dredge or pumping equipment we make for the oil sand producers. A typical machine can weigh over 500 tons. It is carefully designed, with safety and long term reliability and efficiency as important considerations. A machine like this would require us to spend as much as \$10 million on vendors located around the United States like gear boxes from Ohio or upstate New York, or electrical equipment from Illinois, or steel fabrications from Wisconsin, Kentucky or South Carolina, or foundry parts from Pennsylvania, Alabama, Georgia, or Mississippi, or cranes from Kansas. And year in, year out, Caterpillar, which provides us with diesel engines, is our single biggest

supplier. So we buy from both big and small companies. When we make a sale for a Canadian oil sands environmental project, we rely on literally hundreds of vendors from across the country to export a product which is almost all American-made--- and though I am reluctant to admit it, we have a few American competitors also serving the same market which add to the favorable economic impact that oil sands development has on American manufacturing and American exports.

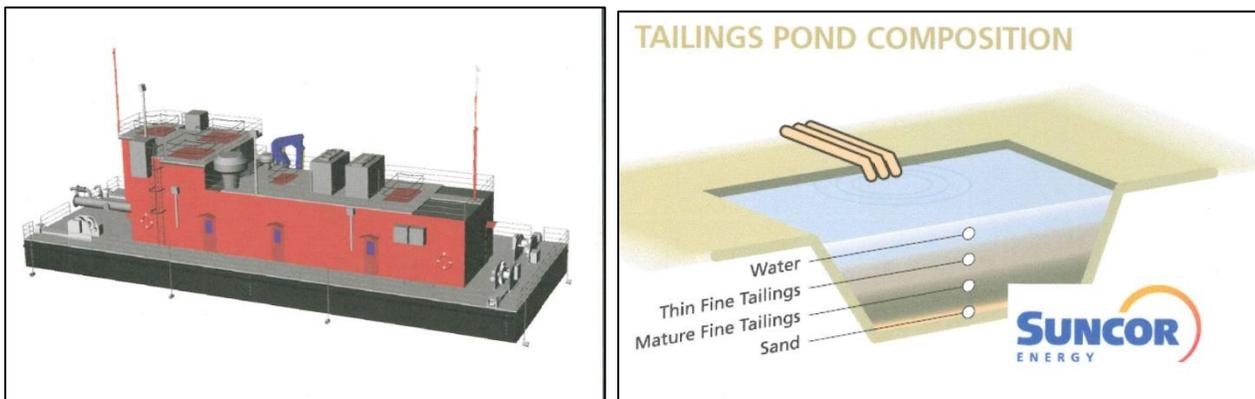
At any given time, it wouldn't be unusual for 20% of our employees to be working on oil sands-related projects.

It is certainly not just the dredge business which benefits from oil sands exploration and development.

Two way trade between the USA and just the province of Alberta is more than with the UK, South Korea or France.<sup>1</sup>

About 2500 US companies export goods and services to Canada in support of oil sands—Ellicott Dredges is just one of those.<sup>2</sup>

The value of those exports annually is projected to range from \$8b up to \$15B, for the next 25 years!<sup>3</sup>



Back to the point of how Keystone affects the oil sands business, which is so important to Ellicott's business: the Committee is likely already aware that the type of oil from oil sands serves certain specific refineries and that there is now a substantial dislocation in the current distribution network for

oil sands product. The result of this is that the oil sands product pricing is currently depressed and selling at a big price discount compared to oil price benchmarks such as the West Texas Intermediate (WTI).

This discount is severely hurting the oil producers, leading them to postpone or even cancel oil sands project developments. We have seen our workload diminished by the impact of this price discount. Oil sands production costs vary depending on the specific project, but have been estimated at \$50- \$60/BBL. So it doesn't take too much of discount to make oil sands uneconomic from a market perspective.

A recent Wall St Journal article tells the tale as well as anyone could. (WSJ, April 9/2013)

“Amid a bottleneck of too few pipelines and too much new oil across the U.S. Midwest, Canadian producers had started agreeing to steeper and steeper discounts to get their oil to American refiners, their only foreign buyers.

But government officials, industry executives and analysts expect continued price swings and market pressure until more pipelines are built.

In January and February, Canadian heavy crude at times traded as much as \$40 cheaper than U.S. benchmark oil. Recently, that differential has fallen back down to less than \$20 a barrel. Because of the Midwest glut, U.S. oil trades at its own discount to international blends.

There's still strong demand for Canada's heavy crude, which many U.S. Gulf Coast refiners prize. But getting it to those buyers has become extremely difficult as U.S. output increasingly fills up the pipelines and storage facilities in between. That's resulted in a market where refiners, not producers, are calling the shots.

“At the very core of it [Canadian producers] are competing to sell into refiners, and the refiners will just drop their prices,” said Don Moe, vice president for supply and marketing at MEG Energy Corp., a Calgary-based oil-sands producer.“ End of WSJ citation.

The US State Department's own 2013 Market Analysis, conducted as part of its Environmental Impact Statement, corroborated this conclusion, that a lack of pipeline capacity is negatively affecting production and new project development.<sup>4</sup>

That report noted:

“...a \$30 reduction in oil price, (such as) a decrease from \$100 to \$70, would result in all projects with a breakeven above \$70 being delayed or cancelled"....Sec 1.4-55) and

“The incremental cost of ...rail versus pipeline is between \$2 and \$7.50” (1.4-56) and

“These steep crude discounts are a disincentive to producers to proceed with new extraction projects.”  
(1.4-59)

They also noted: “Until late 2010, WTI and Brent oil prices moved in parallel with only small differentials between them. Beginning in early 2011, that situation changed. Growth in domestic US and Western Canadian production put pressure on a crude logistics system that was designed to take crude oils to the Central US rather than out to the Coasts. The discounting has persisted into 2013 and is expected to continue unless and until adequate capacity becomes available to enable crudes to move to US and Canadian coastal markets.” (1.4-58)

Our Canadian clients are in fact postponing new projects which would have required our equipment for tailings recovery. Best case they are leaning heavily on suppliers like us for difficult price concessions to offset some of their logistics costs problems.



One way or the other, Canadians will eventually solve their distribution problems, with or without US governmental collaboration. To the extent this process is delayed, the producers will suffer economic loss, and their US suppliers, like Ellicott Dredges will suffer as well...including diminished employment.

We urge you to approve the Keystone pipeline as expeditiously as possible. We should rely on the proposition that the Canadians are fully capable of acting as custodians of their own environment, and that Canadian oil is not only environmentally superior to that from say Venezuela, but certainly more

secure politically compared to or other existing options. Thank you for the opportunity to testify this morning. I would be happy to answer your questions.

#### Footnotes

<sup>1</sup> Dan Lederman, South Dakota State legislator, presentation for National Conference of State Legislatures, 11/7/11

<sup>2</sup> Canadian Assoc of Petroleum Producers fact sheet, Feb, 2012

<sup>3</sup> See number 1

<sup>4</sup> U.S. Department of State. March 2013. Draft Supplementary Environmental Impact Statement. Website: <http://keystonepipeline-xl.state.gov/documents/organization/205654.pdf>. Accessed May 13, 2013.