

**Alberta Federation of Labour Presentation
Multi-Stakeholder Committee on Oil Sands
Calgary, April 24, 2007**

About nine months ago, former Premier Ralph Klein admitted he had no real plan to deal with the oil sands.

No plan. No vision. No direction. And, apparently, no worries.

But like a boat without a captain at the tiller, our economy hasn't stood still.

It has drifted on the current – and in fact that current has increased in speed and the ride has become bumpier.

At first, most Albertans were happy to go along for the ride. Who wouldn't be? Most other Canadians envied our economic position.

But over the past few months it has become increasingly difficult for many people to hang on.

Even a partial list of the challenges is eye-opening:

Over-worked and stressed-out workers.

Concerns about unrestrained development and its impact on the environment.

Sky-rocketing rents and housing prices.

Increased workplace injury rates as more inexperienced workers are thrown onto worksites without adequate training or supervision.

Over-crowded schools and hospitals.

Municipal infrastructure being stretched to the breaking point.

Needed public projects being priced out of reach as the energy sector soaks up the available labour and building materials.

These are all examples of what Lyle Oberg and Ed Stelmach call the “price of prosperity.”

And the government’s solution seems to be to keep paying that price no matter how high it gets.

The problem with the government’s approach to our super-heated economy is the same problem, frankly, that we have with the “proposed options” paper prepared by the Multi-stakeholder committee.

And that problem is that you both focus on finding ways to hang on for the ride rather than on finding ways to actually bring the boat under control and steer it in a safer, more sustainable direction.

This morning, I’d like to talk about the AFL’s vision for setting a better direction and putting Alberta on a more sustainable – and we would argue, profitable – course.

When it comes to setting that direction, our guiding star has to be the public interest and our founding premise has to be that Albertans need to get the greatest possible returns on our collectively owned resources.

If promoting the public interest is our starting point, then the first item of business has to be revisiting the now notorious penny-on-the-dollar royalty for oilsands production.

From our perspective it is beyond perverse that public revenue from the oil sands is set to decline despite substantial increases in production volume.

Between 1995 and 2004, oil sands production increased 133 percent – but royalties dropped by 30 per cent. In 2006 we collected \$2.4 billion in oil sands royalties. But in 2010, the government is predicting we’ll collect \$1.2 billion – half as much – even though production volume is expected to go up by more than 50 percent.

That’s perverse.

It's also perverse that even when oil prices go up, the one-cent royalty remains the same.

With conventional oil, royalty rates go up with price – so the owner of the resources, the public, shares in the windfall. But with the oilsands, because of the fixed one-percent royalty, the windfall that comes with price spikes goes entirely to the energy companies.

The result of all this has been literally billions of dollars in foregone public revenue.

It's money that could have and should have been used for our schools, our hospitals, our roads.

It also helps explain why here in Calgary you're facing the prospect of a transit strike. The city won't offer wage increases that meet inflation because they're not getting enough from the province. And the province won't give enough to the municipalities because their not collecting enough from the oil patch.

Clearly, the one cent royalty is not working in the public interest. And it is also clearly no longer needed as an investment incentive, if it ever really was.

So when setting a more sustainable direction for our ship, the first thing that's needed is a different vision for royalties.

The second thing that's needed is a new approach to pacing development.

Others have already talked about the stresses on municipalities struggling with the legacy of years of under-funding. Others have also talked about the stresses on individuals as they try to cope with the rising cost of accommodation and the rising cost of living.

I won't belabour those points.

But what I would like to draw your attention to is the widely distributed graph for projected construction labour force demand in Alberta.

Some people call it the collapsing pyramid graph. What it shows is that demand for construction workers in Alberta is currently at about 175,000. It's expected to peak at about 240,000 in 2009 and 2010.

That might sound great. But there are two problems with this picture.

First, as a result of literally two decades of under-investment by employers and the government in trades training, we don't have 240,000 construction workers.

So employers are pushing to make up the shortfall with ever-growing numbers of temporary foreign workers.

Second, and probably most importantly, the projections show that by 2015, the demand for construction labour will collapse down to less than 60,000 as major projects are completed.

So, instead of building our projects over a longer period, we're set to build them in a frantic rush.

Instead of matching building plans to the capacity of the existing workforce and keeping our home-grown construction workers employed for a longer period, we're giving their jobs away.

Instead of a steady and more sustainable approach, we're opting for a construction boom, followed by a construction bust.

Again, this is perverse.

If the central premise of oil sands development is to get the best possible deal for Albertans, then that should include maximizing jobs – not just in the short term, but over the long haul.

So, we need to better control the pace of development for environmental reasons. We need to better control the pace of development so our economy doesn't become dangerously overheated. And we need to better control the pace of development so that more jobs can be created and maintained over the long term.

That brings me to our third vision for oil sands development – and that has to do building a more robust value-added petroleum industry.

In the committee’s discussion document you identified the promotion of value added production as a key goal. We’ve heard similar talk from the government.

But, it’s our contention that without strong policy leadership, and we would argue without outright government intervention, we’ll never get there.

To go back to my nautical metaphor, it’s like we’re approaching a fork in the river. Down one stream lies an economic future in which Alberta has a more diversified petroleum economy, built around new upgraders and state-of-art refineries. Down the other stream lies an economic future in which we are primarily exporters of crude oil, full stop.

The problem is that, despite all the talk, the current is now carrying us down the second stream.

And as is the case with any rushing river, once we’ve gone down one stream, it will be very difficult, maybe impossible, to reverse course and go back.

To illustrate just how much is at stake consider these questions.

Did you know that the Keystone pipeline that is currently being consider by the NEB will take more than 450,000 barrels of raw bitumen out of the province each day?

Did you know that the forecasting firm Infometrica estimates that 18,000 long-term jobs would be created in Alberta if that volume of bitumen was upgraded in Alberta?

Did you know that TransCanada, the developers of Keystone, estimate it the pipeline will create a total of 17 long-term direct jobs in Canada?

Did you know that Keystone is only one of several similar projects on the books?

Did you know that while Alberta energy industry is clamouring for more raw bitumen pipelines, there is only one dedicated pipeline for refined oil products – and that one only connects Edmonton to Calgary?

Did you know that by 2012 the existing, approved and proposed upgraders in Alberta could process 3.6 million barrels of oil a day – basically everything that projections say we'll could extract?

Did you know that if pipelines like Keystone are approved they would put these upgraders in direct competition with American refineries and upgraders?

Did you know that reduced access to our own bitumen might result in many proposed Alberta upgrader projects never getting off the drawing board?

Why, we ask should Albertans accept 17 jobs when we could have 18,000?

Why should we build pipelines for raw bitumen that might end up undermining our own value-added industries?

And why should we be pushing for bitumen pipelines when what we really need are pipelines for finished petroleum products?

We would argue that the window for taking action on these issues is small. If nothing is done to shelter and nurture our downstream petroleum industry, the investments in upgraders and refineries will be made in places like the American Mid-West and the American Gulf Coast.

Once those billion dollars investments have been made, they can't be unmade. And if we allow that to happen, we will miss an historic opportunity to transform Alberta into a major refining and petrochemical hub, as opposed to a province that relies primarily on extraction.

So looking back one our three visions, we propose a number of concrete actions:

We need a higher royalty rate – and one that moves up and down with price.

We need a planning system with teeth. This system must not be merely consultative. It must consciously pace and stagger development. The choice about pace must lie with the public and the government, not industry.

And when making decisions about pace, we must look not only at industry desires – but also at environment concerns and work force limitations. What's in the long term best interests of Albertans must trump what's in the narrow best interest of energy companies.

On the subject of value added, we need the government to intervene to oppose pipelines for raw bitumen. They should start by appearing before the NEB on the proposed Keystone project.

We also need the government to take concerted steps to promote value added production. This could involve introducing a differential royalty rate. But that, by itself, won't be enough. They should also look at ways to encourage the construction of new finished product pipelines – linking Alberta to new markets like California. We should also look at using direct public investment and equity stakes, as we did in the early days of the oil sands to promote the development of a more robust downstream industry.

In many ways our energy industry today is like one of those bodybuilders you see at the gym. The upstream industry is all puffed up biceps and chest. But the downstream is the spindly legs. We need to even out the development.

Finally, if industry players don't like all of this – if they continue to threaten to take their ball and leave the sandbox – we should take back, or buy back their leases – and give them to companies that will play by the rules.

I'd like to conclude today by saying a few words about the environment in general and about the international effort to combat global warming in particular.

Last night, I was in the audience at the Jack Singer Hall to hear former US Vice President Al Gore – and I count myself among those who think strong action needed to be taken quickly to head off a global catastrophe.

To some there might seem to be an inconsistency between the position I've taken in supporting the development of a bigger downstream petroleum industry here in Alberta and my position on the need for urgent action on global warming.

Some might say it would be easier to dig it, ship it out and let some other jurisdiction worry about the CO2 emissions that come with upgrading and refining.

But aside from all the potential jobs that would be sent down the pipeline, I don't believe in passing the buck.

We could send our bitumen down to the US Gulf Coast where it would be processed by plants that are in some cases 40 or 50 years old – and where the emission regulations might be more lax.

Or we could build a bigger, better and environmentally cutting edge downstream petroleum industry right here.

Last night Vice President Gore talked about how crisis can present both challenges and opportunities.

The crisis over global warming is like that – challenge and opportunity.

We know for example that California has recently adopted much more stringent rules on CO2 emissions. Other US states are already making plans to follow their lead.

Some might see this as a negative for Alberta's energy industry – but I see it as an opportunity.

I've already said we should use government policy to foster the growth of a big, more robust downstream petroleum industry here because it would create more sustainable jobs and a more diverse economy.

But we should also use government policy to build our own downstream industry so we can be part of the solution rather than part of the problem when it comes to global warming.

Carbon sequestration. An effective emissions trading system. New technologies that reduce the amount of water needed to extract bitumen. We could be innovators and leaders. We could be part of the solution, not part of the problem.

Last night, Vice President Gore quoted Upton Sinclair who wrote that it's hard to get a man to see the truth when his livelihood depends on him not seeing that truth.

A lot of people here in Alberta, at least those making decisions in the office towers here in Calgary, seem to think that our livelihoods depend on us ignoring the truth about global warming.

Left to themselves, these people – the executives who run our energy industry – will either keep their heads in the sand or they will tinker with half measures that really don't address the problem.

By themselves, industry will not turn Alberta into the kind of continental downstream petroleum hub it could be. And by themselves, they will not act on global warming

That's why government has to spell out the vision, set the targets and lay down the rules.

Rules to keep bitumen in the province for upgrading. Rules to cap emissions. Rules to set the pace of growth at a rate that doesn't overwhelm our workforce, our infrastructure or our environment.

Like kids looking at their parents, some in the industry will complain about the rules are too tough. They will, as Greg Stringham from CAPP did in the paper this morning, warn of dire consequences.

But you know? There's too much money to be made in the oil patch for them to walk away. And there are very few other places in the world for them to invest.

That's what we in the labour movement call bargaining power. And we should use that bargaining power to get the best possible deal for Albertans when it comes to both the environment and more value-added jobs.