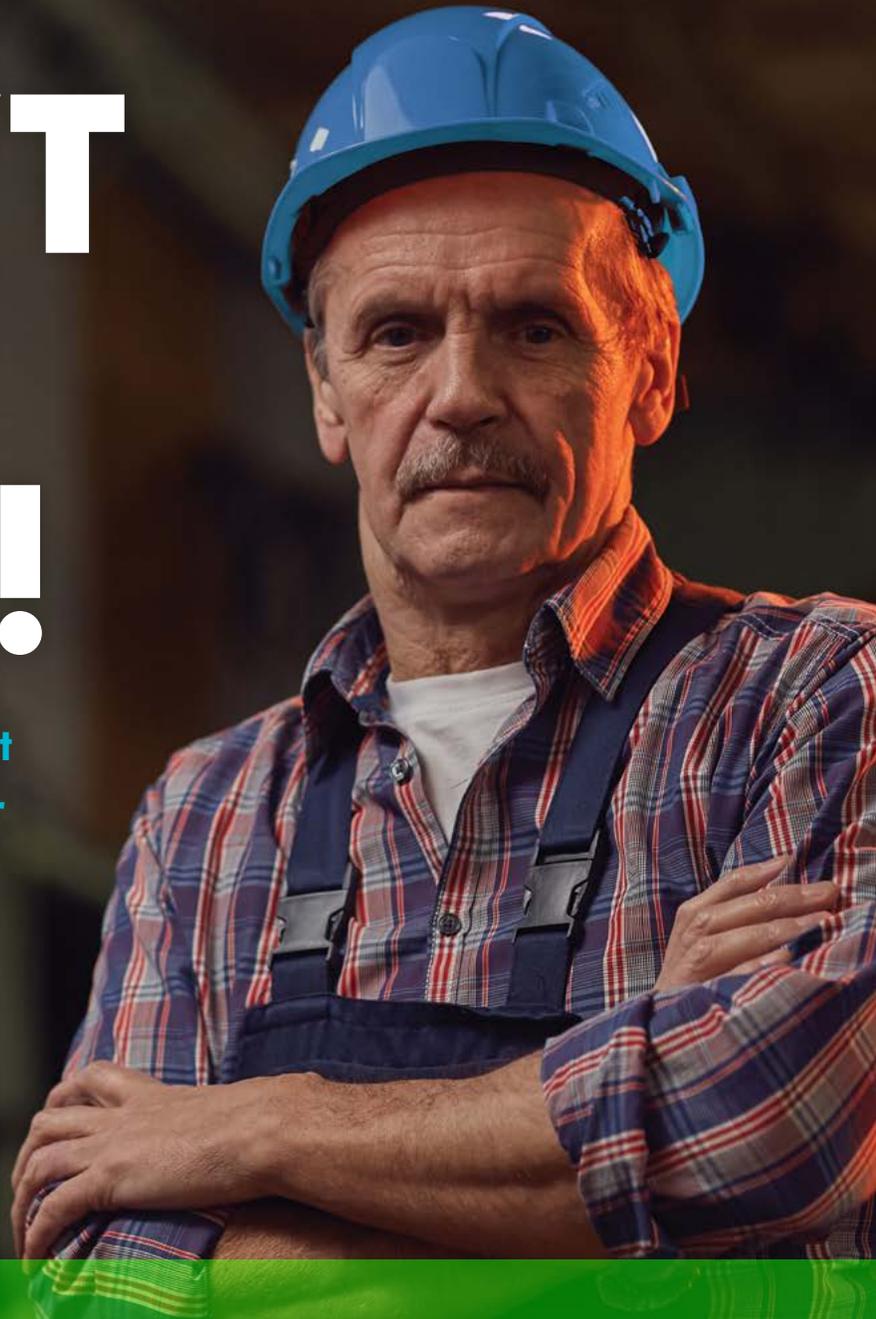


Alberta  
Federation  
of Labour



# DON'T YOU DARE!

Why working Albertans don't  
trust Jason Kenney with their  
retirement savings



# PRESIDENT'S OPENING STATEMENT

Earlier this month, the UCP-aligned government of Premier Scott Moe in Saskatchewan announced that it is considering using public money to invest in oil and gas projects that are having trouble finding private investors.<sup>1</sup>

As a leader of Alberta's labour movement, and a representative for hundreds of thousands of Albertans who have been saving for their retirements through our province's big public sector pension plans, the big questions on my mind are these:

- Is Alberta Premier Jason Kenney and his United Conservative Party government thinking of doing something similar here in Alberta?
- Are they planning to ignore the loud signals coming from the markets and use taxpayer money to finance risky ventures in the oil and gas sector?
- And, perhaps most urgently, are they eyeing the billions of dollars saved by hundreds of thousands of ordinary Albertans for their retirements in our province's big pension funds?

In the attached report, appropriately titled, *"Don't You Dare!"*, we outline troubling signs that the Alberta government is, indeed, thinking of going down this road.

Comments from a number of prominent UCP surrogates, as well as the Premier himself, suggest that the government is preparing to make the argument that global investors are illogically and unfairly abandoning our oil and gas sector; so Albertans – for the sake of our economy and our prosperity – need to fill the gap either with direct government funding, or with money diverted from the Heritage Fund or the pension funds managed by the provincially-owned investment agency, AIMCo.

The Premier has clearly been crafting a narrative to provide justification for these kinds of unprecedented moves.

For example, he consistently claims that the collapse in investment in Alberta's oil and gas sector is the result of "foreign-funded campaigns"<sup>2</sup>, aimed at besmirching our province's reputation; as opposed to the more mundane – and we would argue more plausible – explanation, that investors are turning away from Alberta oil and gas for the same reasons they've been reducing their exposures to the sector around the world: low global oil prices; supply gluts; poor returns and an increasing realization that prudence requires investors to quantify and "price in" the financial risks associated with climate change.

In addition to crafting a narrative to justify spending public money and the private savings of hundreds of thousands of Albertans on projects that private investors and private markets are showing an increasing reluctance to support themselves, the Premier has also given himself new mechanisms and tools to seize control of the money he seems interested in using to fund his agenda.

Specifically, in November 2019, over the strenuous objections of public-sector unions and public-sector workers, the government passed Bill 22, the *Reform of Agencies, Boards and Commissions and Government Enterprises Act*.

Among other things, the Bill stripped the Alberta Teachers' Retirement Fund (ATRF) of its traditional independence and forced it to use government-owned AIMCo as its investment manager, as opposed to making its own investment decisions, as it has been doing successfully for decades.

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1. Sask. government eyeing energy sector investment <https://thestarphoenix.com/news/local-news/sask-government-eyeing-energy-sector-investment>  
2. Jason Kenney <https://www.facebook.com/kenneyjasont/videos/foreign-funded-campaigns-have-tried-to-landlock-alberta-and-canadian-energy-while/322351311793598/>

The Bill also stripped Alberta's other big public sector pension plans – the Local Authorities Pensions Plan (LAPP), the Public Services Pension Plan (PSPP) and the Special Forces Pensions Plan (SFPP) – of the right they previously had to switch to other investment managers if they lost confidence in AIMCo.

To add insult to injury, Bill 22 also made a number of changes to the boards of all of these pension plans – changes that are clearly designed to strengthen government control, by weakening the influence of the people who actually fund the plans: Alberta's public-sector workers and their employers.

In essence, Bill 22 extended and cemented the government's control over the money that hundreds of thousands of Albertans have been saving diligently, and at significant personal cost, month after month, year after year for their own retirements. These changes, in combination with the political direction promoted by UCP leaders and UCP-leaning surrogates and commentators, raise serious questions about the overall intent of the UCP.

As Albertans, we in the provincial labour movement recognize and appreciate the huge contribution that the oil and gas sector has made, and continues to make, to our province. The sector is the biggest engine of our provincial economy and, indeed, one of the biggest engines of the Canadian economy.

We are also not opposed to our pension plans investing in oil and gas projects – as long as those projects actually make sense from both a financial and environmental point of view. However, we think it would be unwise and irresponsible to use either public dollars or the retirement savings of hundreds of thousands of Albertans to do what the markets and the global investment community are increasingly reluctant to do themselves.

In this report, we show that the flight of investment from the oil and gas sector has much more to do with mundane and logical factors such as over-supply, low prices, low returns and legitimate fears about stranded assets, than it does with conspiracies and "foreign-funded"<sup>3</sup> campaigns against our province. The world's leading investment firms, bond rating agencies, insurance companies and central banks are all saying that a reckoning is coming for the oil and gas sector – not just here in Alberta, but globally. Jason Kenney may believe that he can hold back this tide of well-informed caution with ads and fake news stories from his (so far comically inept) "war room", otherwise known as the Canadian Energy Centre. But we do not share his confidence. In fact, we think he is deluding himself – and, in the process, leading Albertans into a dangerous economic dead-end.

If Premier Kenney wants to invest his own, personal, money to prop up companies and projects that experienced global investors have rejected, fine. And if he convinces many individual Albertans to do the same with their own, personal, savings, that's also fine. But, if he wants to use public money or the accumulated retirement savings of hundreds of thousands of Albertans for these purposes, then we say "*Don't You Dare!*". He has neither the consent from pension plan participants nor the mandate from voters to do either of these things.

With all of this in mind – and on behalf of the hundreds of thousands of Albertans who are worried that the UCP is planning to use their retirement savings to fund a quixotic and irresponsible political agenda – we at the Alberta Federation of Labour demand that Bill 22 be revoked.

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3. Ibid

In particular, we demand that the Alberta Teachers Retirement Fund (ATRF), once again, be given the power to manage investments themselves, as has been their longstanding practice. We also demand that Alberta's other big pension plans (LAPP, PSPP and SFPP) be given back the right to choose different investment managers if they lose confidence in AIMCo. Finally, we demand that the changes aimed at stacking pension boards with government surrogates and yes-men also be revoked. These three measures, taken together, will ensure that the retirement savings of hundreds of thousands are not invested in ways that they have not consented to.

In a similar vein, we also demand that the UCP secure the support of Albertans – either through a new election or a referendum – before they use public funds, public savings or money diverted from the contributions of Albertans to the Canada Pension Plan (CPP) to support corporations or projects that cannot generate sufficient support from investors and markets.

In conclusion, I want to urge my fellow Albertans to give Premier Kenney's narrative about "foreign-funded conspiracies"<sup>4</sup> more scrutiny. There is no doubt that our premier is an impressive showman. But his razzle-dazzle performance – aimed at turning our very real economic anxieties and fears into politically exploitable anger – is preventing us from seeing, hearing and responding to the warning signals that are coming, not just from environmentalists, but also from markets and investors.

For the sake of our province's workers and retirees, we need to say a very firm "no" if the UCP suggests risking our retirement savings (housed either in public-sector pensions or in Albertans' contributions to CPP) in order to defy the economic laws of gravity.

We also need to raise serious questions if they propose to use tax dollars or savings in the Heritage Fund to fund projects that can't win the support of investors, banks, insurers or bond rating agencies. Public revenue spent – and perhaps lost – on these ventures will be money that's not available to fund the programs and services that Alberta families, communities and businesses rely upon; like education, health care and infrastructure.

Finally, and perhaps most importantly, we need to start asking ourselves questions like these:

- Is this the best way to deal with a future that almost everyone agrees is going to look very different from our past?
- Should we continue to play the blame game and look for scape goats; or would it make more sense to prepare our citizens and our economy for change?
- Should we use our limited resources to double-down on the past; or should we focus on investing in the future?

The way we answer these questions will shape the future of our province. This is also an, "Emperor Has No Clothes" moment for all Albertans. As president of our province's largest worker advocacy group, I firmly believe that, as citizens, we need to call the Premier out on his irresponsible and misleading characterizations of the challenges facing our province. I also firmly believe that the best way to defend the jobs, wages and livelihoods of working Albertans is to prepare for the future, rather than pretend, against all evidence, that we can go back to the past.

**GIL MCGOWAN**

President, Alberta Federation of Labour

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4. Ibid

5. Canada Pension Plan funds given to Mumbai affordable housing? [<https://factcheck.afp.com/no-justin-trudeau-did-not-direct-canadas-pension-fund-investments-india>]

# EXECUTIVE SUMMARY

The United Conservative Party (UCP) has made a number of unprecedented changes affecting pension plans in Alberta and the retirement security of hard-working Albertans. These changes raise serious questions about the overall intent of the UCP and how they may use pension plan funds to further political goals which may risk pension security for Albertans.

This report reviews the various changes related to pensions from Bill 22, the *Reform of Agencies, Boards and Commissions and Government Enterprises Act*. Bill 22 included a number of changes to public sector pension plan governance, to pension plan benefit calculations, and to pension plan autonomy when it comes to service providers.

Overall these changes drastically alter the independence of public sector pensions in Alberta and introduce an unprecedented level of potential political interference. It is unacceptable for any provincial government to gamble with the pension savings of hard-working Albertans and we demand the UCP repeal the applicable sections of Bill 22 that prevent these pension plans from properly managing investments through joint governance models and pension best practices.

## Bill 22 and Alberta's Public Sector Pensions

Alberta workers with pension investments in Alberta Investment Management Corporation (AIMCo) are rightly concerned with recent changes by the government led by the United Conservative Party (UCP). Recent moves by the UCP have undermined workers' trust by unilaterally centralizing pension fund management to AIMCo, undermining the principle that pensions are jointly governed by both workers and employers.

On November 22nd, 2019, Bill 22, the *Reform of Agencies, Boards and Commissions and Government Enterprises Act* received Royal Assent and became law. With its passage, the UCP government transferred control of the ATRF, Local Authorities Pension Plan (LAPP), Public Service Pension Plan (PSP), Special Forces Pension Plan (SFPP) among other funds to AIMCo.

These pension funds represent deferred wages, earned by workers, that have been invested in order to supplement those workers' incomes when they are no longer able to work. However, the structure the government has set up under Bill 22, appears to allow the current UCP government an unprecedented ability to influence public sector pensions. Some right-wing commentators have even discussed the possibility of using pension funds to invest in specific industries in Alberta, such as the oil and gas industry that is facing increasing difficulty attracting investment funds.

In order to safeguard autonomy and ensure pension funds are there for workers when they retire the Alberta government must:

1. Allow the ATRF to manage investments themselves, as has been their longstanding practice.
2. Permit other jointly governed pension plans to select the fund managers that best suit their needs within a free market if they lose confidence in their current fund manager.
3. Reverse governance changes made through Bill 22 that attempt to stack public sector pension boards against workers with government surrogates.

# Effects of Bill 22 on Pensions and Retirement Security

## Governance Changes

Bill 22 makes important changes regarding the pension corporations in Alberta. The pension corporation boards oversee the pension corporation that act as the administrator and trustees of the pension plans. These pension corporations are responsible for administering pension benefits and ensuring that pensions are paid to members. It is imperative that the various groups that contribute to the pension plans have representatives on the boards that oversee the pension corporations. It is just as imperative that these representatives are accountable to pension plan members in a meaningful way. There were also changes made to the pension sponsorship boards, made up of representatives from the various plan sponsors including employees and employers. The sponsorship board makes decisions regarding pension benefits, eligibility rules and helps with setting contribution rates.

One of the key changes under Bill 22 is removing one Alberta Union of Provincial Employees (AUPE) representative and replacing that person with an active member of LAPP who is not unionized on the LAPP Corporate Board of Directors and Sponsorship Board. LAPP Corp is left to recruit and appoint this member. This change is troubling as historically non-union representatives are extremely vulnerable to pressure from employers. Non-unionized members have limited if any job protections that would prevent them from being demoted or terminated for their representation activities at a pension table. These members are also not democratically elected by the body they represent and they have no reporting-back or accountability mechanisms to the members they represent. Because of these structural and power imbalance issues, non-unionized members often become de facto employer representatives. Historically unions have also taken on the role of representing non-unionized workers at tables with employers with the understanding that unionized representatives have more job protections in place to help ensure they are able to represent the best interests of members.

Bill 22 also changes the steps to appoint members to pension corporation boards. In the past, sponsor organizations were allowed to appoint members to the corporation board but the changes introduced in Bill 22 mean this is now done through Order in Council, leaving Cabinet to decide who is appointed. The people that make up the pension contributions are the ones that are in the best position to appoint their own representatives to the board, especially if they are coming from democratic organizations with robust reporting back mechanisms to members. It is unacceptable that any government would have a role in this process and be able to accept or reject representative nominees based on arbitrary guidelines.

Bill 22 also changes the structure of the corporate pension administrators for LAPP, PSPP, and SFPP. Where they have been independent in the past, they will now be agencies of the Alberta government and therefore subject to the *Alberta Public Agencies Governance Act* (APAGA). This means these pension corporations will have responsibilities to the Minister which may be codified in a "Mandate and Roles Document" or from directives from the Minister directly. Bill 22 actually creates a confusing governance structure where the pension corporations are accountable to their pension members but also to the responsible Minister.

## Benefit Changes

Bill 22 made drastic changes to pension member protections, in particular for the rights of part-time non-unionized employees to stay in LAPP and PSPP. Bill 22 removed protections for new part-time and non-unionized workers to join these pension plans by allowing changes to employer policies that had previously been protected from change for three years under the JGA.

The Bill also attacked the successor rights provisions under the previous JGA. These provisions allowed pension plan members to continue to participate in their pension plans if their work was privatized or contracted out or if their employer happened to change. LAPP and PSPP employers may now privatize their operations or contract out all or a portion of their work and have no obligation to maintain workers' access to these pensions. Now under Bill 22, these workers could lose their pensions through no fault or decision of their own.

## Service Providers

Before Bill 22 a number of Alberta pensions plans had the ability to change their administrators from Alberta Pensions Services Corporations (APS) to any other administrators as of March 1, 2024. Bill 22 restricts this ability and now pensions must use APS as the permanent and exclusive administrator.

Similarly, before Bill 22, under the JGA these pension plans could change their investment managers from AIMCo as of March 1, 2024. Now, these pension plans are not able to change their investment manager and must stay with AIMCo permanently. At the minister's discretion, up to 10% of the pension funds can be invested with a different fund manager.

For both the investment manager and the pension plan administrator Bill 22 effectively takes AIMCo and APS out of a competitive consumer market situation creating a monopoly. AIMCo and APS no longer must ensure they are delivering a quality product and providing the best services possible since most of their clients would be a captive audience who is unable to disengage from their services. This means that AIMCo and APS have no pressure on them to deliver quality services and investment performance. This also means that the public sector pension plans would now have little recourse in the event that AIMCo or APS do not perform well, if AIMCo or APS increase their fees, or if AIMCo or APS services deteriorated.

The Auditor General of Alberta, under Bill 22, is once again the auditor for all of the jointly sponsored Alberta pension plans. Prior to Bill 22 the plans were to use an independent auditing firm.

## Independence and Political Interference

The current organizational set up of Alberta's corporation pension plan administrators in relation to the Government of Alberta is confusing and conflicting. The current setup makes plans accountable not just to plan members and stakeholders but also to the Alberta government. This setup undermines the fiduciary quality of the plan administrators and creates a confusing governance framework.

AIMCo is an agent of the Government of Alberta, and as such is subject to APAGA. Under APAGA, organizations like AIMCo are subject to direction by a responsible Minister. The Minister is also able to obtain any information they wish to have from AIMCo. The Minister has control via the requirement for AIMCo to negotiate a "Mandate and Roles Document" with the Alberta government that prescribes such things as AIMCo's committee structures, financial, administration, and staffing arrangements.

AIMCo is also subject to the AIMCo Act, which requires them to follow directives issued by the Treasury Board. AIMCo and the corporate Board of Directors are deemed to be in compliance with their statutory fiduciary obligations to AIMCo if they follow directives issued by the Treasury Board.

The powers the Government of Alberta has under the *Alberta Investment Management Corporation Act* and APAGA to instruct and direct may cause AIMCo to act against the best interest of pension plan members. Although the AIMCo Act does say that AIMCo must act in the best interest of their clients, this requirement is not reconciled with AIMCo's duty to follow direction from the Treasury or from the Minister. Rather, the UCP changes create conflicting obligations for AIMCo. Pension funds having the ability to leave AIMCo freely would provide some protection but the affected public sector pension plans no longer have this as a choice of action.

Rather, Bill 22 introduced a new layer of potential political interference to AIMCo. This political interference could come in the form of directing investment decisions or pressuring AIMCo to overinvest in certain areas, such as Alberta or Alberta's oil and gas sector. Best practices in investing requires diversification across many asset classes, geographical locations, and industries. However, politically and ideologically driven investments may actually concentrate AIMCo investments into a narrow set of firms, industries or geographical areas, which could have serious consequences for all investment funds with AIMCo.

Most respected pension plan arrangements allow no such ability for political interference. Canada's largest and best governed public sector pension plans are structured to ensure there is no interference from Ministers or political directions for investments.

For example, with the Canadian Pension Plan Investment Board (CPPIB) there is no such mechanism, and if any politician even attempts to contact members of the board of CPPIB that interaction must be reported, according to Keith Ambachtsheer, director emeritus of the International Centre for Pension Management.<sup>5</sup>

Furthermore, the government of Canada can make or change regulations governing investments for the CPPIB, but this is a public process and requires approval of at least two-thirds of the provinces participating in the pension, having at least two-thirds of population in the plan. Telling the Canada Pension Plan what to do is more difficult than changing Canada's constitution.

## The Role of Alberta's Pensions and the Energy Transition

The UCP appear to have created a system that allows them to politically interfere with AIMCo which goes against pension best practices. This is even more concerning given that voices aligned with the UCP administration have also signaled the government's desire to provide pension funds to the oil and gas industry. Calgary Herald columnist Don Braid presented this view in a column on November 6, 2019. Citing anonymous sources, Braid reported that "government officials suggest there could be a strategic advantage for Alberta development. With many lenders shunning oil and gas, AIMCo might buy more stakes in the industry."<sup>6</sup>

Conservative commentator Danielle Smith reiterated the suggestion that pension funds be directed towards fossil fuel investments in November.<sup>7</sup>

"I think that's part of the reason why Albertans are looking at having their own Alberta Pension Plan because they know there's a divestment move of all of the pension funds across Canada and internationally and if CPP starts bailing out of energy resources we don't want to be in a position where our money is being used to support solar and wind or other experiments that the CPP driven by a Trudeau government might want to invest in so I think that that is going to be the bigger conversation over the next year or so."<sup>8</sup>

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6. Braid: Alberta pensions a serious idea that would flip out the feds [<https://calgaryherald.com/opinion/columnists/braid-alberta-pension-a-serious-idea-that-would-flip-out-the-feds>]

7. Dissolution of Alberta's election commissioner's office sparks ethics debate, Sunday Scrum, CBC [<http://www.cbc.ca/player/play/1648114243837/>]

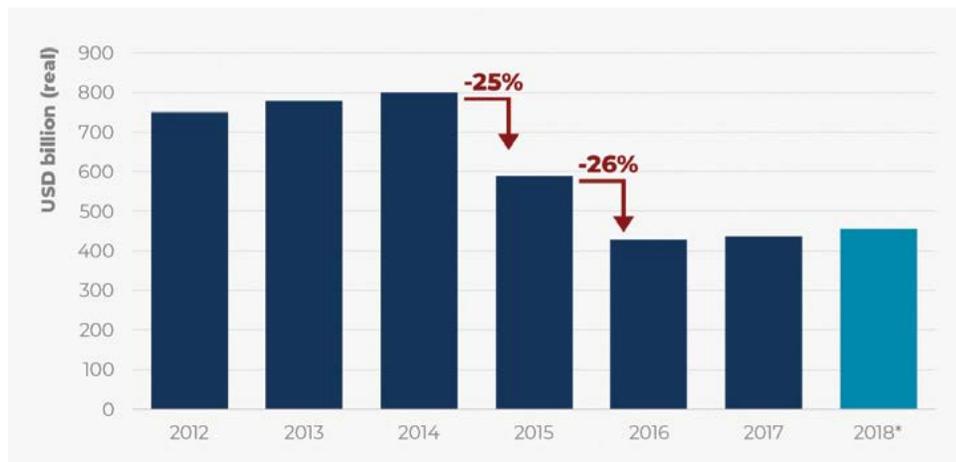
8. An Alberta Pension Plan has merit – but not as a source of fresh capital for the energy sector [<https://www.cbc.ca/news/canada/calgary/alberta-pension-plan-aimco-max-fawcett-1.5374110>]

## What’s really happening with global oil and gas investment

There is no doubt that investment in oil and gas is down dramatically. This trend is not unique to Alberta, rather, it is a global phenomenon. Here in Alberta, overall investment in the sector fell from \$60B in 2014 to \$24B in 2019<sup>9</sup> This drop is in line with what happened globally, where investment fell from roughly \$800B in 2014 to roughly \$400B in 2018<sup>10</sup>.

### GLOBAL OIL INVESTMENT<sup>11</sup>

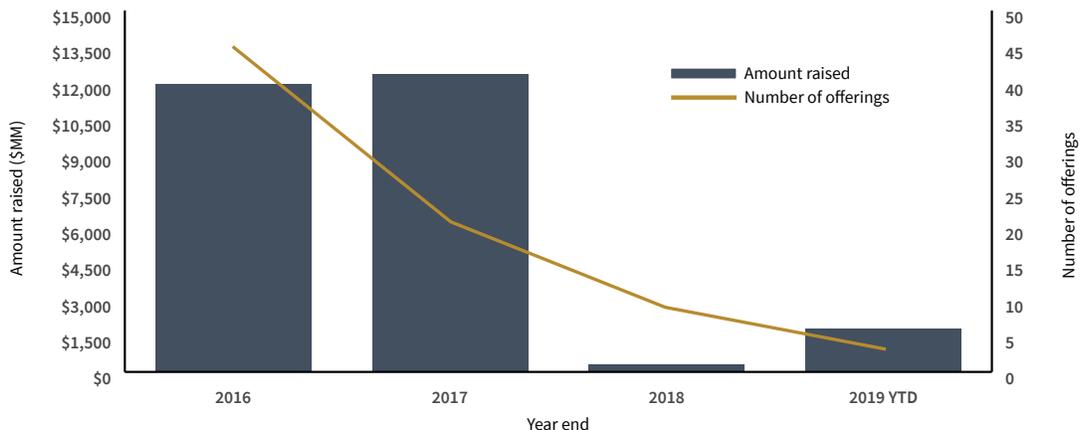
Global oil & gas upstream capital spending, 2012-2018



Preliminary based on selection of investment updates

Companies that use equity markets to find financing have been particularly hard hit. In Alberta, the Alberta Securities Commission recently reported companies attracting only \$1 billion in funds in 2018 – an \$11 billion drop from what was raised in 2016.<sup>12</sup>

### CAPITAL RAISED BY PROSPECTUS OFFERINGS AND NUMBER OF PROSPECTUS OFFERINGS BY OIL AND GAS FIRMS PRINCIPALLY REGULATED BY THE ASC<sup>13</sup>



9. Alberta oil and gas spending to drop to lowest in a decade: AER [<https://www.iwnenergy.com/article/2019/6/alberta-oil-and-gas-spending-drop-lowest-decade-aer/>]

10. IEA (2018), “World Energy Investment 2018”, IEA, Paris <https://www.iea.org/reports/world-energy-investment-2018>

11. IEA, “Global oil and gas upstream capital spending, 2012-2018”, IEA, Paris <https://www.iea.org/data-and-statistics/charts/global-oil-and-gas-upstream-capital-spending-2012-2018>

12. Welcome to the energy transition: New report shows collapse of Alberta capital markets for oil/gas public companies [<https://energi.media/markham-on-energy/welcome-to-the-energy-transition-new-report-shows-collapse-of-alberta-capital-markets-for-oil-gas-public-companies/>]

The decline of the oil and gas sector can also be seen on stock exchanges around the world. Oil and gas companies used to make up a large share of the global stock exchanges: now they are fading. Since the 1990s, energy stocks have dropped from 15% of the S&P 500 to 5% last year.<sup>14</sup>

## Why are investors turning away from the sector?

Premier Kenney has blamed the oil and gas sector’s declining fortunes on “foreign-funded campaigns”<sup>15</sup> and a “political agenda emanating out of Europe”<sup>16</sup>. These kinds of conspiracy theories are catchy. And they’re great for politicians who want to rile up their base. But, when it comes to why investors are turning away from oil and gas, the reality is much more mundane.

There are at least five reasons why investment has dried up. These reasons include overproduction in the United States, disappointing returns on investment, and new calculations and valuations of environmental liabilities. Many of these issues are related – and none of them are the result of “radical environmentalists”<sup>17</sup> or shadowy conspiracies against Alberta.

## Overproduction in the United States

The fracking boom south of the border has turned the United States from one of the world’s biggest importers of oil into a net exporter. It also transformed the world’s supply-demand balance. Where before the market for oil was characterized by scarcity, it is now characterized by abundance.

### US OIL PRODUCTION<sup>18</sup>

Since 2010

Values are shown in thousands of barrels produced per day



13. Ibid

14. There’s more oil and gas than ever – and the industry is tanking [<https://www.axios.com/oil-gas-industry-stock-market-worries-53852109-8001-4f7d-8d97-84844a20050c.html?stream=top>]

15. Jason Kenney [<https://www.facebook.com/kenneyjason/videos/foreign-funded-campaigns-have-tried-to-landlock-alberta-and-canadian-energy-what/322351311793598/>]

16. Financial institutes like Moody’s ‘buying into’ European political agenda: Kenney [<https://globalnews.ca/news/6255402/kenney-danielle-smith-interview-moodys/>]

17. Jason Kenney [[https://www.facebook.com/kenneyjason/posts/10156134381912641?comment\\_id=10156134426802641&reply\\_comment\\_id=10156134732272641&comment\\_tracking=%7B%22tn%22%3A%22R%22%7D](https://www.facebook.com/kenneyjason/posts/10156134381912641?comment_id=10156134426802641&reply_comment_id=10156134732272641&comment_tracking=%7B%22tn%22%3A%22R%22%7D)]

18. U.S. Crude Oil Production - Historical Chart [<https://www.macrotrends.net/2562/us-crude-oil-production-historical-chart>]

## Low Prices

The US fracking boom, and the resulting move from global scarcity to abundance, has driven down prices. Industry insiders agree that prices will stay lower for longer. Some say they will remain lower forever. In either case, low prices mean lower profits which leads to lower investment. Albertans used to understand the obvious connection between price and investment – it's at the heart of the boom-bust roller coaster we've been riding since oil was first discovered in the province. Its baffling why people are so willing to ignore the role that low prices is playing in our current downturn.

### PRICE OF OIL<sup>19</sup>

2010-2019

The current price of WTI crude oil as of January 15, 2019 is \$52.11 per barrel



## Disappointing returns

ExxonMobil, which has historically had great returns compared to any other stocks, along with XOP – an exchange-traded fund focused on oil and gas – have performed far worse compared to the overall S&P for the past 6 years. The downturn of these stocks is due the drop in oil prices because of oversupply.<sup>20</sup>

### PERCENT CHANGE IN EXXON, XOP AND S&P<sup>21</sup>

June 22, 2006 to Feb 4, 2020



Data: Yahoo Finance; Note: XOP is an exchange-traded fund of oil and gas stocks; Chart Axios Visuals

The energy sector overall is up 34% over the past decade – which is the worst total return of all of S&P 500's 11 sectors<sup>22</sup>. The next sector, materials, has had five times the returns, and tech stocks are up nearly 400%.<sup>23</sup>

19. Crude Oil Prices - 70 Year Historical Chart <https://www.macrotrends.net/1369/crude-oil-price-history-chart>

20. Ibid

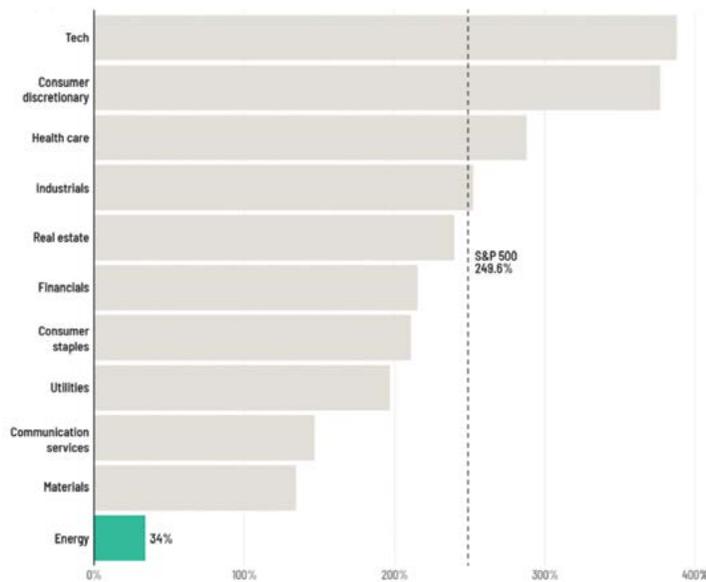
21. Ibid

22. Energy stocks are the biggest losers of 2019 – and the decade <https://www.cnn.com/2019/12/18/investing/worst-stocks-oil-energy/index.html>

23. Ibid

### ENERGY LEFT IN THE DUST IN THE 2010s<sup>24</sup>

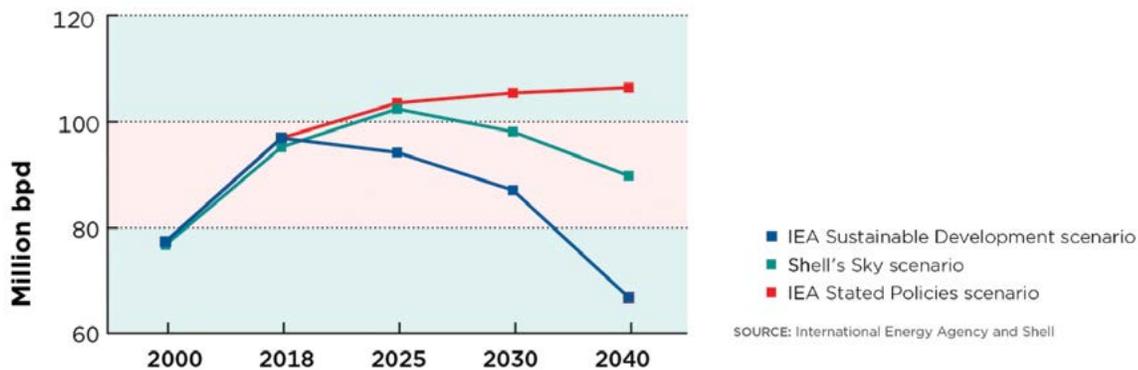
Energy sector total returns are the weakest in the entire S&P 500.



### Worries about future demand

It is becoming increasingly clear that those who plan on a future with dramatically increasing investment growth in the oil and gas sector are essentially betting that the world will do nothing more than it has already done to address climate change (which means: very little). That’s the investment trajectory mapped out in the International Energy Agency’s (IEA) “Stated Policies Scenario”<sup>25</sup>. But, if as seems increasingly likely, the world does start getting serious about reducing greenhouse gases, then demand for oil will start to decline (as the world moves to renewable alternatives to meet its energy needs). Declining demand, coupled with continued high levels of production from places like the United States, will almost certainly lead to lower prices – and lower levels of investment, which in turn, will continue to put downward pressure on returns and stock prices.

### LONG-TERM OIL DEMAND FORECASTS<sup>26</sup>



24. Ibid

25. World Energy Model: Scenario analysis of future energy trends [<https://www.iea.org/reports/world-energy-model/stated-policies-scenario>]

26. The role of oil and gas companies in the energy transition [<https://www.atlanticcouncil.org/in-depth-research-reports/report/the-role-of-oil-and-gas-companies-in-the-energy-transition/>]

## Worries about clean-up liabilities

One of the largest issues facing Alberta specifically in this sector are the mounting clean-up liabilities. The environmental liabilities, according to Alberta's Auditor General, are several underfunded and historically undervalued for the cost it will take to remedy<sup>27</sup>. An Internal document from the Alberta Energy Regulator (AER) even shows that reclamation costs estimates are currently 2 to 2.5 times too small<sup>28</sup>. As of 2018 AER was holding only \$1.46 billion in financial security<sup>29</sup> for an estimated \$31.4 billion worth of clean up liabilities.<sup>30</sup> This historic undervaluing of the final clean ups from these projects is a huge risk that may eventually fall entirely on Albertans to fund and currently represent about 9 per cent of Alberta's GDP and more than half of the provincial annual budget.<sup>31</sup>

It is becoming increasingly clear that this liability is a risk to private sector investors and Albertans.

### ESTIMATED OIL AND GAS WELL CLEANUP COSTS VS. SECURITIES HELD<sup>32</sup>

As of January 4, 2020



CBC NEWS. Source: Alberta Energy Regulator

## Worries about credit and cost of capital

The market is speaking very loudly and clearly in regards to the new risks facing investment in oil and gas. The recent downgrading of Alberta's debt by Moody's – which downgraded the creditworthiness of Alberta's debt to records lows – cited our dependence on oil sands for revenue and the risk of growing environmental costs, among other factors.<sup>33</sup>

While Canadian banks and pension funds have continued, for the moment, to invest in the oil and gas sector, this may be partly explained by pressures from inside Canada and concerns about public backlash than an evaluation of sound investment<sup>34</sup>. However, the backlash will be even bigger if Canadians see their banks and governments using tax dollars to prop up any industry in terminal decline. The backlash from pensioners and hardworking Albertans invested in public sector pensions will be no less fierce if their funds are used politically and ideologically.

27. Alberta's looming multibillion-dollar orphan wells problems prompts auditor general probe [<https://www.cbc.ca/news/business/alberta-orphan-wells-liability-audit-review-1.5433603>]

28. Looting: The Economic Underworld of Bankruptcy for Profit [<https://www.brookings.edu/bpea-articles/looting-the-economic-underworld-of-bankruptcy-for-profit/>]

29. Annual Mine Financial Security Program Submissions [<https://www.aer.ca/documents/liability/AnnualMFSPSubmissions.pdf>]

30. Mine Financial Security Programs – Security and Liability [[https://www.aer.ca/documents/liability/MFSP\\_Liability.pdf](https://www.aer.ca/documents/liability/MFSP_Liability.pdf)]

31. Regulations alone won't fix Alberta's potential oil-and-gas well crisis [<https://www.theglobeandmail.com/opinion/article-regulations-alone-wont-fix-albertas-potential-oil-and-gas-well/>]

32. Alberta's looming multibillion-dollar orphan wells problem prompts auditor general probe [<https://www.cbc.ca/news/business/alberta-orphan-wells-liability-audit-review-1.5433603>]

33. Moody's downgrades Alberta's credit rating, citing continued dependence on oil [<https://www.cbc.ca/news/canada/calgary/moody-s-alberta-credit-rating-1.5383294>]

34. Global Financial Giants Swear Off Funding an Especially Dirty Fuel [[https://www.nytimes.com/2020/02/12/climate/blackrock-oil-sands-alberta-financing.html?e=1&nl=climatefwd:&emc=edit\\_clim\\_20200212&campaign\\_id=54&instance\\_id=15936&segment\\_id=21211&user\\_id=bb6262a8b129d9540703519d3cc76eac&regi\\_id=5981907520200212](https://www.nytimes.com/2020/02/12/climate/blackrock-oil-sands-alberta-financing.html?e=1&nl=climatefwd:&emc=edit_clim_20200212&campaign_id=54&instance_id=15936&segment_id=21211&user_id=bb6262a8b129d9540703519d3cc76eac&regi_id=5981907520200212)]

## Worries about insurance

According to a recent New York Times report<sup>35</sup>, some of the world's largest insurance companies including The Hartford, AXA, Swiss RE, and Zurich Insurance have all backed away from insuring operations in Alberta's oil patch<sup>36</sup>. The Hartford in particular will no longer insure or invest with companies that have more than a quarter of their revenue from either thermal coal mining or Alberta's oil sands.<sup>37</sup>

## Worries about stranded assets

The current reserves of oil and gas are increasingly at risk of becoming worthless. According to a recent Financial Times estimate nearly \$900 billion worth of reserves could become worthless and too expensive to develop<sup>38</sup>. As the overall market shifts and government policies change, the economies of oil and gas development also change – and often they become too expensive to continue. If governments around the world work to restrict global temperature increases to prevent catastrophic climate change, oil and gas companies could see 1/3 of their value “stranded” in undeveloped oil and gas projects<sup>39</sup>. Because of this new reality, private investors will price in the cost of this risk when evaluating oil and gas companies<sup>40</sup>.

## Pricing Climate Risk

It is well-known that the United Nation's new special envoy on climate action and finance, being headed up by Mark Carney, will push for financial institutes to take on new measures accounting for climate risk<sup>41</sup>. This means that the price for climate change would be factored into all investments moving forward. Through this kind of action, it could become more difficult, and more expensive, for financial institutions to invest in oil and gas projects. This would make development of new oil and gas projects in Canada extremely difficult as private financing would be even harder to come by.

## Summary

All of these worries are what has led an increasing number of investors to make pronouncements about moving away from fossil fuels. The most dramatic announcement came from Larry Fink, the CEO of BlackRock, one of the largest investment firms in the world with \$7 trillion under management. Fink stated in a recent letter to CEOs, “The evidence on climate risk is compelling investors to reassess core assumptions about modern finance”<sup>42</sup>. “In the near future – and sooner than most anticipate – there will be a significant reallocation of capital”, Fink stated.

Even CNBC financial television host and investment guru, Jim Cramer, recently came out advising viewers that he is done with investing in fossil fuels<sup>43</sup>. To Cramer, investments in this industry are no longer sound investments with a good chance of high returns<sup>44</sup>. Cramer originally came out comparing fossil fuel stocks to tobacco, acknowledging the market generally is moving away from these investments. In a follow up, Cramer stated:

“I am not about making friends, I am about making money. And I don't think I can help you make money in the oil and gas stocks anymore. They seem like a slowly melting ice cube, a wasting asset that will have down revenues unless oil jumps higher and stays higher... I don't expect that to happen.”<sup>45</sup>

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35. Ibid

36. Ibid

37. Ibid

38. Lex in dept: the \$900bn cost of 'stranded energy assets' [<https://www.ft.com/content/95efca74-4299-11ea-a43a-c4b328d9061c>]

39. Ibid

40. A Third of Fossil Fuel Assets May Soon Be Stranded [<https://oilprice.com/Energy/Crude-Oil/A-Third-Of-Fossil-Fuel-Assets-May-Soon-Be-Stranded.html>]

41. Mark Carney's climate plans may push oil and gas production from Canada to state-owned firms abroad [<https://www.theglobeandmail.com/business/commentary/article-mark-carneys-climate-plans-may-push-oil-and-gas-production-from/>]

42. A Fundamental Reshaping of Finance [<https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter>]

43. Jim Cramer jolts fossil fuel divestment debate [<https://www.axios.com/jim-cramer-fossil-fuel-divestment-big-oil-stocks-af6d200d-820f-466d-bcd5-dd268cc75efd.html>]

44. Jim Cramer: Once Again, Why Fossil Fuels Are on the Wrong Side of History [<https://realmoney.thestreet.com/jim-cramer/jim-cramer-once-again-why-fossil-fuels-are-on-the-wrong-side-of-history-15227698>]

45. Ibid

Cramer and Fink are not foreign-funded entities against Alberta and they are not alone in noticing the market shift. Rather, there is a growing chorus of investment giants noting the same changes.

Still, AIMCo has historically demonstrated a tendency towards investing disproportionately in Alberta oil and gas. When AIMCo purchased a \$1.15 billion stake in the Northern Courier pipeline in 2019, CEO Kevin Uebelein suggested that “we have an over exposure if you will or a long exposure to Alberta overall. But we think that’s quite natural because we have insights and we can evaluate transactions that are closer to home.”<sup>46</sup> AIMCo’s CEO Kevin Uebelein has already admitted that AIMCo investments have tended towards a disproportionate focus in Alberta fossil fuel ventures.

From the Standing Committee on the Alberta Heritage Savings Trust Fund on Friday, June 21, 2019:

Mr. Uebelein: “Our objective is to maximize risk-adjusted return for all of our clients, including the heritage fund, and as such we diversify across asset classes and on a global basis. In fact, 8 per cent in Alberta from our perspective is a pretty massive overweight against Alberta’s representation in the total economy, which is closer to one-half per cent. So you might think of that as a 7 and a half per cent overweight. We’re very comfortable with that overweight because as Dale has already said – I won’t be redundant – we see a lot of good investment opportunities in our own backyard. Frankly, we have in some instances, not all but in some, a home field advantage. We understand the marketplace around the block and across town better than we might understand the marketplace in far-flung places. Real estate is a great example of that and infrastructure to a lesser degree. These are not mandated percentages apart from the growth fund, yet we still have effectively over weighted Alberta quite substantially.”<sup>47</sup>

These kinds of investment activities fly in the face of investment best practices of diversification: you do not put all your eggs in one basket and you certainly do not push against the market that is so dramatically shifting priorities.

If the markets are too worried to ramp up investment, why should we?

It is important that Alberta take notice of the shifting markets now. This shift may be just starting, and it is already having a profound impact on our economy and the lives of Albertans everywhere. If the shift ramps up, as will likely happen with global trends, Alberta may be left behind if we do not start to adapt to a changing world.

The shifts in global markets are a reality that Alberta and our industries must deal with. In order to properly deal with these shifts we must work to understand them and understand what we can do to address the issues and prepare our province, workforce, and Albertans for the coming changes. The Alberta Government absolutely has a role to advocate on behalf of Albertans and the industries that have contributed to our success but attempting to vilify all critics is not going to change the global markets and shifts in investments. Rather, we are wasting precious time we could be spending preparing for and responding to the global shift.

The UCP is risking being dragged into the future kicking and screaming rather than being the leaders Albertans are known for and dealing with the changes head-on. If our economy cannot adapt to these changes we risk being left behind.

Kenney himself is attempting to push back against global investment and insurance markets with wild claims that these changes are part of a foreign-funded campaign against Alberta. In response, the UCP and Kenney have created the now infamous “war room” which has been plagued with issues and accusations of nepotism and entitlement<sup>48</sup>. The reality is that there is little value to be gained by this approach and it can actually be detrimental.

If Jason Kenney was going to gamble his own money and bet against the markets, global investors, bond rating agencies, central banks and insurance companies... That would be his business. But if he’s going to use public money and the retirement savings of hundreds of thousands of Albertans, that’s another thing.

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46. AIMCo signals faith in Alberta’s economy with \$1,15B pipeline deal [<https://www.bnnbloomberg.ca/video/aimco-signals-faith-in-alberta-s-economy-with-1-15b-pipeline-deal-1693454>].

47. [http://www.assembly.ab.ca/ISYS/LADDAR\\_files/docs/committees/hs/legislature\\_30/session\\_1/20190621\\_0830\\_01\\_hs.pdf](http://www.assembly.ab.ca/ISYS/LADDAR_files/docs/committees/hs/legislature_30/session_1/20190621_0830_01_hs.pdf) page 10

48. Breakenridge: It’s time to put the war room out of its misery [<https://calgaryherald.com/opinion/columnists/breakenridge-its-time-to-put-the-war-room-out-of-its-misery>]

# CONCLUSION

All Albertans want to see our province and fellow Albertans prosper. Regardless of how our province and our economy adapts to the changing future, we all want to have success that is shared with everyone.

That being said, pension savings from hard working Albertans should not be used to fix issues with small and medium oil and gas companies that are unable to attract investment capital. To use pension funds to prop up industries flies in the face of pension and investment best practices.

Bill 22, in combination with recent commentary from right-wing proxies, suggests that indeed public sector pensions funds may be used to fill gaps in the market current market and help prop up Alberta businesses that are unable to attract investment capital. This also leads to a number of questions of why the UCP would use Bill 22 to take so much control over public sector pensions: is a quid pro quo where certain businesses support certain political parties in exchange for investment capital? Does the UCP actually plan on using these pension funds to prop up specific industries?

These questions are troubling and they deserve quick answers on behalf of government to address the concerns raised. The UCP should:

1. Allow the ATRF to manage investments themselves, as has been their longstanding practice.
2. Permit other jointly governed pension plans to select the fund managers that best suit their needs within a free market if they lose confidence in their current fund manager.
3. Reverse governance changes made through Bill 22 that attempt to stack public sector pension boards against workers with government surrogates.

It is unacceptable for any political party in any province to take risks with workers' retirement funds to shore up specific industries and companies – especially when the general markets are moving away from such risks. Retirement and pensions funds are not government piggy banks to dip into as they please.





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