

AFL Presentation to Alberta Royalty Review Panel
Delivered By AFL President, Gil McGowan
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I haven't come here today as an expert in economics or oil industry planning.

I don't have a PhD. I don't have an MBA. I'm not a CEO, a CFO or even an engineer.

Instead, I'm here today, as an elected leader and spokesperson for 29 unions representing more than 120,000 working Albertans.

As the Alberta labour movement's top advocate and politician, I do what other politicians do.

I talk to my constituents. I meet with local leaders. I try to get a sense of what our members are really concerned about.

And what the thousands of tax-paying, vote-casting members who I represent are saying is that they don't believe that they're getting the best deal possible on the oil-sands resources that we, as Albertans, own collectively.

In particular, Alberta union members don't think that our province's now infamous penny-on-the dollar oil sands royalty is either fair or appropriate.

My assessment of the mood of union members in this province is not just based on a hunch or a feeling.

It's based on face-to-face meetings. And it's based on structured discussions that we've had with elected and accountable leaders.

In the month March, for example, I toured the province and met directly in town hall meetings with rank-and-file members from most of our affiliated unions.

We met in Edmonton and Calgary; Lethbridge and Medicine Hat; Grande Prairie and Red Deer. Even in smaller communities like Hinton.

I met with nurses and paramedics; firefighters and municipal workers; forestry workers, refinery workers. The list goes on.

But our consultations didn't end there. Just last week, more than 300 delegates from about 200 union locals around the province met right here in Calgary for the AFL's biennial convention.

We talked about all the things that you might expect to hear a union convention: wages, working conditions, labour law, health and safety.

But the one over-riding issue that delegates to our convention kept returning to was the same over-riding issue that I heard repeated over and over again at our town hall meetings: and that's the issue of oil sands policy.

Our members are concerned about the pace of oil sands develop and the impact it's having on quality of life, the environment and the cost of living.

Our members are concerned about the growing number of energy companies making plans to ship raw bitumen down the pipeline and out of the province without upgrading it here.

And, most importantly for our purposes today, our members are concerned about a royalty regime which they feel is failing the Alberta public.

The reason I raise the concerns of our members in detail is because our members are not some radical rump. They're ordinary Albertans and, as such, I think they're a good barometer of the broader public mood.

And, as I think you've seen, when it come to oil sands royalties, the public's mood is not a good one.

The public is sceptical. The public is frustrated. The public is worried that we're being taken to the cleaners while oil company executives snicker behind closed doors about what suckers we are.

Looking at the evidence, it's hard for any well-informed lay person to come to any conclusion other than that the oil industry is getting a sweetheart deal on the oil sands.

It's a deal that was born in a different time – but which has survived unchanged.

The one per cent royalty was put in place ten years ago to help encourage investment in a risky, fledgling industry struggling with relatively low oil prices.

But the industry is now mature; investment is up 400 percent since 1997 and the price for bitumen has increased by more than 250 percent over the past decade.

There may have been a time when this was an industry in need of a hand up – but clearly that time has passed.

What was once a system that was arguably needed to kick-start investment has now become a system for looting Alberta resources and robbing Albertans of their birthright.

My language may seem harsh. But the reality we see in front of us is harsh.

We think it's perverse that oil sands revenue is projected to fall over the next three years – and is predicted to be the same in 2020 as it was in 2005 despite a tripling in production.

We think it's perverse that during an unprecedented oil boom Alberta can't even reach its own modest target of collecting 25 percent of revenues from oil and gas.

We think it's perverse that countries like Kazakhstan and Bolivia are getting a bigger piece of their resource pies for their citizens than our government is getting for Albertans.

And we think it's perverse that, as the Pembina Institute pointed out yesterday, the current Alberta royalty regime gives oil sands developers 53 percent of net revenue from the projects they're developing – when oil and gas companies operating in places like Norway somehow seem to manage to get by with a 22 percent share.

The bottom line for us is that the current royalty regime has resulted in literally billions of dollars in foregone public revenue.

That's revenue that could have and should have been saved for future generations.

It's revenue that could have and should have been used to help diversify our economy.

And it's revenue that could have and should have been used for our hospitals, our schools our roads and our municipalities.

Of course the industry says they're barely getting by.

They moan about the rising cost of construction – conveniently ignoring the fact that it was the low royalty itself that played a big role in over-heating the market in the first place – and also ignoring the fact that the lion's share of the cost over-runs are actually shouldered by the public as the horizon higher royalty pay-outs gets pushed further off into the future.

The industry and their apologists in government also talk about the “triple threat” --elimination of federal tax breaks; the introduction of green house gas; and possible changes to provincial royalties.

They argue that they based all their planning on the assumption that royalty rates would remain unchanged.

But, you know what? They also based their planning on the assumption that oil would trade at 30 to 40 dollars a barrel when it is now trading for much more than that.

That's the nature of the economy. Things change. And businesses adapt.

In that regard, the report released yesterday by the Pembina Institute provides a great service.

It cuts through all the clutter and rhetoric. It shows in clear terms what we've all know intuitively – namely that oil sands companies are making money hand over fist – and that they could continue to make healthy amounts of money even if the public took a much bigger piece of the pie.

The sky didn't fall when Peter Lougheed ignored dire industry predictions in the 70s and increased royalty rates. And it won't fall today, if we do the right thing and reform our approach to royalties.

When it comes to recommendations, I won't pretend to be something I'm not. I won't make detailed suggestions about exactly where the royalty rates should be set.

However, on behalf of the Federation of Labour, I'd like to suggest a number of broad guidelines.

First, we think that, when it comes to oil sands policy, our guiding star and highest priority needs to be the public interest.

Obviously, we need to consider the interest of the companies we contract with to develop our resources. But what's best for those companies is not always what's best for the public – and our government leaders, as stewards of our collectively-owned resource, have to be prepared to make that distinction.

Second, we think our government needs to be reminded of the role it plays and the role energy companies play.

Energy executive may sometimes behave as if they own the resource and they're doing us a favour by letting a few crumbs spill down from the table. But they don't own the resource, we do.

Energy companies are our hired hands. They deserve to be paid fairly. But as the owners of the resource, we think it's reasonable for the public to capture between 70 and 80 percent of available revenue through taxes and royalties.

Third, we think the government, has to start thinking not just like an owner, but also as a negotiator.

They need to approach every new oil sands proposal as an opportunity to bargain the best possible deal for the public.

We in the labour movement are used to thinking like this. And what we see when we look at the oil sands situation is an opportunity that our government has so far failed to capitalize on.

We have a resource that the world wants.

We are politically stable.

We are right next to the biggest market in the world.

Only about 20 percent of world oil supplies are available for private oil companies to develop – the other 80 percent are controlled by national oil companies.

The big oil companies are sitting on massive piles of money, but they don't have many places to invest it.

In short we hold all the cards. That's what we call bargaining power. It's time our government started to use it.

Fourth, when I comes to keeping bitumen in the province for upgrading – which is one of our key goals as a labour movement – differential or preferential royalties can and probably should play a role.

But by themselves they won't be enough to keep jobs here or to foster the growth of a more robust downstream petroleum industry.

The real answer on that score lies in planning and active regulation. If we give leases to companies that have plans to build upgraders and refineries in the US and if we allow major pipelines to be built for the express purpose of exporting huge volumes of raw bitumen, then differential royalties will be little more than a finger in the dike.

Fifth, and finally, I think we should learn a lesson from other oil-rich jurisdictions, especially Norway. And that lesson is that if private sector firms aren't willing to develop our resources in the public interest, we shouldn't be afraid to do it ourselves.

Royalties are one way to guarantee returns for the public – but ownership is another.

In the current political climate, this may seem radical. But it wasn't that long ago that Conservative governments in this province created public enterprises like the Alberta Energy Corporation to guarantee a better deal for Albertans.

Taking ownership positions in energy developments is not socialism. Given that we're the owners of the resource, it's just good business. It's about taking care of our own interests by taking care of our own business.

In the end, taking a more aggressive approach to collecting resource rents in the oil sands will almost certainly lead industry players to threaten and stamp their feet. It may, indeed, scare away a few marginal investors. And it may slow down development somewhat.

But given that the current pace is pushing the limits of our infrastructure, our labour force and our environment, a slightly slower pace may be just what the doctor ordered. And, if that slower pace comes with better long-term returns for Albertans, then the public interest will really be served.