

**OIL SANDS DEVELOPMENT HEARINGS  
PRESENTATION BY GIL MCGOWAN, PRESIDENT, ALBERTA  
FEDERATION OF LABOUR  
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Good afternoon. My name is Gil McGowan and I'm president of the Alberta Federation of Labour.

As most of you know, the AFL is the largest union organization in the province.

We represent everyone from nurses and lab technicians & to municipal and school board employees & to construction workers and the people who drive those big oil sands trucks and operate the upgraders in places like Fort McMurray and Lloydminster.

In short, our members build this province and they keep it running.

As president of the AFL, I spend a lot of time traveling the province.

And I can tell you, many of our members were scratching their heads this summer when the Premier admitted his government had no real plan for oil sands development.

In his own defense, the premier has tried to argue that no one could have predicted just how crazy things would get in the energy sector.

But, you know what? The regular working people I talk to every day aren't buying it.

There's an old saying that the real job of a politician is to represent the future to the present.

If that's the yard stick, then frankly, our leaders haven't been measuring up.

While almost everyone in the province saw the clouds on the horizon - the people whose job it was to look forward, to test the wind and to make preparations - somehow, they didn't see the problem and they did next to nothing to prepare.

The results of that failure are as frustrating as they were predictable. Labour shortages. Infrastructure deficits. The sky-rocketing cost of living.

The Premier and members of his cabinet can continue to pretend that they were surprised by all these things, but the bottom line is that they could have and should have seen this coming.

They should have seen this coming nine years ago, when the energy industry convinced them to adopt the now infamous one-penny-on-the-dollar royalty that was explicitly designed to set off an investment rush.

They should have seen this coming six or seven years ago, when annual capital investment in the oil sands jumped from \$1.5 billion in 1999 to \$6 billion in 2001.

And at the very least, they should have seen this coming two years ago when oil prices started to rocket into the stratosphere and cities like Fort McMurray, Grande Prairie and Cold Lake started screaming that they were bursting at the seams and staggering under the burden of growth.

They shoulda, they coulda - but they didn't.

So here we are in September 2006. We still have no plan - but we have this committee.

As the old saying goes: better late than never.

So, on behalf of our members, thank you for finally providing a forum for a discussion that should have begun years ago.

To some, it may seem curious that a labour leader is here today with a long list of complaints. After all, the story in Alberta has been one of jobs and higher wages.

Some might argue that if ever there was a time that workers and the unions should be happy it's now.

But despite its shiny exterior, there's something rotten at the core of the Alberta economy.

For us, the problem begins with the one-percent oil sands royalty that I've already mentioned.

Essentially the government allowed the oil industry to write its own ticket - and when they did that, it was like putting our economy on steroids.

The funny thing about steroids is that they work - at least in the short term. And that's what's happened in the oil sands. Coupled with record high oil prices, the one percent royalty has set off a gold-rush of development.

But in the same way that steroids are ultimately bad for the human body, fiscal steroids are almost inevitably bad for the economy.

Part of the problem is with the one-percent royalty is simply foregone revenue. Premier Klein and others have shrugged off these concerns saying that we'll eventually get our pound of flesh.

But, as former Premier Peter Lougheed has so eloquently put it, we can't be so cavalier with royalty rates because "once you sell a barrel of oil, it's gone forever. You can't sell it again later for a better price. It's like a farmer selling off his topsoil."

But that's what we've been doing. And the money that we've forgone - money that was due to us as owner of the resource and which could have been used to help our struggling municipalities or for education or for health care - it's gone forever.

As a labour leader, I know something about bargaining. And I can tell you, if I'd gone back to my members with a deal like the Klein government got for Albertans on oil sands royalties I would have been run out of office in ten seconds flat.

But the low royalty rate isn't just a problem in terms of getting a fair return for the resources we all own collectively as Albertans. The one-percent royalty - and the incentive it provides for development - also has significant implications for our provincial labour market.

This problem was probably best described by a business writer from the Globe and Mail a few months ago when who compared what's happening in the oil sands to those scenes in old Three Stooges movies where the stooges all tried to get through a door at the same time - and got stuck in the process. Here in Alberta, instead of Larry, Moe and Curly, we have Shell, Canadian Natural and Imperial - plus a host of others.

The basic problem is that we have too many companies all trying to develop projects at the same time - and they're getting stuck in the door. The low royalties and high oil prices attracted them; our government's policy of handing out oil sands leases like candy on Halloween got them hooked and now they're all chasing after the same building materials and trying to draw from the same limited labour pool.

For our purposes this afternoon, I think it's important to make a quick list of the downsides of this Wild West approach to development.

First, there's the whole issue of rising costs. With all the Stooges trying to get through the door at the same time, the cost of building projects has gone up, way up. This is obviously bad news for companies involved and their investors - but it's also bad for ordinary Albertans because - as a result of the one-percent royalty - the more expensive an oil sands project gets, the longer we have to forgo getting real royalties.

Our overheated oil sands have also driven up the costs of all other construction projects in the province. All the infrastructure projects that have been ignored for the last decade and are now finally starting to be built - but they're costing us up to 30 per more than they would have even just a few years ago and they're taking longer to complete.

Did the big brains in our government think of these costs when they were trying to decide whether the one-percent royalty was a fair trade-off? Honestly, I don't think so.

The second big downside of the current unregulated stampede to develop the oil sands has to do with training. This one often gets lost in the shuffle - but I think it's extremely important for our future.

With the frenzy of building that's going on, the number of apprentices working in the province has gone up dramatically. But because everyone is so stretched - and because so much work is being done non-union where the standards are lower - many, maybe even most, apprentices are not getting the supervision on the job they need to properly develop their skills.

At the same time, many apprentices are actually choosing to stay on their worksites and forgo their classroom training because there's so much work and so much immediate money to be made. I've even heard stories about employers who pay bonuses to apprentices if they agree to postpone finishing their classroom work - just so they can keep a few more warm bodies on the worksite.

The big question I have is: are we cheating a new generation of trades people out of the comprehensive training they need to become masters of their trades? And are we setting ourselves up for workplace quality problems in the future?

Related to these concerns are concerns about safety and shoddy work. One project manager told me that some companies - in particular the non-union ones - have had to resort to what he described as the "bar stools and high schools" approach to recruiting. They're manning their jobs with workers who don't have the right skills, with young workers without experience and, increasingly, with temporary foreign workers who have been fast tracked by the government, but whose credentials are sometimes suspect.

So what happens when you go the "high schools and bar stools" route?

Well, there have been accidents caused by inexperienced or inadequately trained workers; there have been cases where new workers don't know how to do basic things like how to put the webbing in their hard hats or batteries in their drills; and there have been worksites where whole modules and structures had to be torn down and rebuilt because of shoddy workmanship.

It's sort of like the situation hockey fans complain about when expansion teams are added to the League. If the league has too many teams, the talent pool gets stretched and the overall quality of the game drops. That's what's happening with our construction labour market - we've got too many owners trying to put too many teams on the ice at the same time and the quality of our game is suffering.

That leads me to my final - and probably most important critique of our government's current "do-nothing" "let'er rip" approach to oil sands development - and that has to do with the long-term pay-off for Alberta workers and their families.

When you think about it, there are really only two ways that individual Albertans get their share of our collective oil wealth. The first is through royalties that can be spent on programs and services that we all benefit from. But as you've heard from many people, the royalty stream from the oil sands is a fraction of what it should be. The second way that Albertans get their piece of the pie is through jobs. But here again, there are major problems.

When it comes to construction work, by trying to build so many projects all at once, it forces employers into a position where they have to consider bringing in temporary foreign workers. And that's been happening - oil sands companies and their contractors have been furiously filling out applications for permits and our provincial and federal governments are accelerating the process for approvals.

The problem with all this is that it hastens the day when the building will be over. Our trades people would prefer 20 years of relatively steady work to seven or eight years of frantic work followed by a jobs bust. But if something isn't done to stagger

the projects and pace development, that's exactly the road we're going to find ourselves travelling down.

Of course, our concerns are certainly not restricted to construction work - and our criticism of the Alberta government's approach to oil sands development is not restricted to the one-percent royalty. In many ways, our biggest concern is actually related to the lack of any plan for adding value to our oil sands resources. In particular, we've looked at the Klein government's approach in detail, and we see no evidence of a coordinated plan to ensure that our oil sands resources are used to build new industries or create more long-term, family and community sustaining jobs here in the province.

As one analyst quoted in Canadian Business magazine recently said, the Alberta government doesn't really seem to have a resource industry development strategy - instead he said we seem to have what amounts to a resource liquidation strategy. In a nutshell, the goal seems to be to dig it up and ship it out.

Here again, our government seems to be revealing itself as little more than a bunch of yes-men for the oil industry. The industry said they want the one-percent royalty, and the Klein government complied quickly. At the same time, many industry players have been saying they want our oil - but they want to process it somewhere else.

Over the past few months alone, companies like Husky, BP and Encana have talked about building upgraders or refineries in places like Illinois, or Indiana, or Montana. The shocking thing is that people like our Energy Minister Greg Melchin seem to shrug it off and say, that's the way the market works.

From our perspective, that's simply not good enough. In the same way that former Premier Lougheed warned that we cannot afford to be cavalier about foregone royalties, I would argue that we can't afford to be cavalier about lost jobs. There was a time not that long ago, that many Canadian complained about Canada becoming what they described as a branch plant economy. But today in Alberta, without a clear plan from our government, I'm afraid we're on the road to becoming a pipeline economy.

We have vast resources, but our government seems content to simply ship those resource down a pipeline - along with the thousands of potential jobs. Just how many jobs are we talking about? Well, one of our affiliate unions, the Communication Energy Workers union, recently asked an economic forecasting firm to look at the proposal for the so-called Keystone pipeline, being bankrolled by TransCanada pipelines. The study estimated that 18,000 well-paid, long-term, stable jobs could be created in Alberta if the 400,000 barrels per day that Keystone pipeline could handle were to stay within the province for processing.

nd Keystone is only one of six major pipeline projects to the States currently under consideration.

The really frustrating part of all this is that there is currently a North America-wide shortage of refining capacity. New refineries are going to be built - and there's no good reason why they can't be built here in Alberta - especially if those refineries are

going to handle our oil. If high labour costs and labour shortage are stopping companies from considering building more value-added projects in Alberta, then for goodness sake, let's ease the burden by staggering development and freeing up more workers. Let's not miss out on a literally golden opportunity just because a bunch of oil company big wigs couldn't find a way to take turns.

So, in the end, what are we asking for?

The first order of business has to be to scrap the one-percent royalty. It's overheating our economy. It's grossly distorting our labour market. And it's denying Albertans a fair return on our collectively owned resources.

Second, we need to slow and manage the pace of development. Unlike other groups that are calling for an immediate moratorium on development, we would suggest that the government go ahead with the one big project that is currently at the regulatory stage - and here I'm talking about Suncor's Voyageur expansion.

Subject to environmental approvals, it is exactly the kind of job generating, value-added project that we should be giving priority to. But after that project has been approved we need to stagger new approvals so that no more than one major project is being built at one time. This would help us maximize the use of our existing construction labour force and it would give us more time to ensure that projects still in development will be meet our goals on economic development and environmental sustainability.

Third, we need a clear and aggressive plan aimed at transforming Alberta from a pipeline economy into a more diversified petroleum processing economy. No one has yet been able to tell me why preference should not be given to companies that commit to processing the oil they extract here in Alberta.

Fourth, and this may surprise some people coming from a union guy like me, we need to reject the idea of industry self-regulation when it comes to the environment. In particular, we need to commit our provincial government to reaching Kyoto targets for CO2 emissions. New and existing plans should be required to meet the highest possible standards.

We not only have the resources to become leaders in the fight to stop global warming, as the primary beneficiaries of Canada's oil wealth, we have an obligation to the rest of the country - and indeed to the world - to act as a model for environmental sustainability.

I'd like to wrap up today with a direct appeal to the committee.

There are those who have told you or will tell you not to mess with a good thing. They will argue that any so-called intervention on the part of the government, no matter how small, will upset a delicate balance and run the risk of scaring away investment. They will say that oil companies need to make hay while the sun shines and they will warn you not to kill the golden goose.

Most importantly, the oil companies will argue that they've got everything under control and that market forces will set the appropriate pace for development and even protect the environment. My response to that string of free market platitudes is: look at the record.

Peter Lougheed dramatically increased royalties - and the sky didn't fall.

When it comes to industry policing itself to address labour shortage or policing itself on environmental issue all I say: look at the great job they've been doing so far. I would actually argue that the real threat to the future viability of the oil sands - if there is one in a world of \$60 or \$70 a barrel oil - is not royalty rates, but cost. And as I've said, the current "let 'er rip" approach to development is the major factor in driving costs up. So, whether they like to admit it or not, government mandated staggering of developments may be just what the industry needs to keep themselves in the black.

In the end, what I think is need more than anything, is for our provincial government and Alberta citizens in general to do as Peter Lougheed suggests, and that is to start thinking of themselves as owners. We own the resource, so it's us, not the oil companies, that get to make the decisions about where, when and how we develop things. Especially in this town, it's easy to forget: but they work for us, not the other way around.