

Sounding an alarm for Alberta

As premier of Alberta from 1971 to 1985, Peter Lougheed presided over the energy boom of the 1970s and defended Alberta's interests against the incursions of the National Energy Program in the 1980s. Now a vigorous 78, he recently sat down in his Calgary law office with *Policy Options* Editor L. Ian MacDonald to discuss the challenges and opportunities for Alberta arising from a world of \$75-a-barrel oil.

Premier ministre de l'Alberta de 1971 à 1985, Peter Lougheed a présidé au boom énergétique des années 1970 et défendu les intérêts de sa province contre les intrusions du Programme énergétique national des années 1980. Toujours vert à 78 ans, il s'est récemment entretenu avec le rédacteur en chef d'*Options politiques* L. Ian MacDonald dans son cabinet d'avocats de Calgary. Les deux hommes ont discuté des défis et possibilités pour l'Alberta d'un monde où le baril de pétrole atteint les 75 dollars.

POLICY OPTIONS: Mr. Lougheed, thanks for doing this. Very few people have had as successful a post-political career as you have had, exiting the political stage at the peak of your popularity and having a very successful business career, and yet keeping a hand on the public policy process. How have you managed to do that for the last 20 years?

PETER LOUGHEED: Well, it has been a good balance. The business side of it went very well, I decided I didn't want to run anything, I had been running the government of Alberta, so I didn't want to be a CEO. I decided on the role of being a member of boards of directors and that worked out very well for me.

PO: When you took office in 1971, the price of oil was \$3 a barrel.

LOUGHEED: That's right.

PO: And tripled to \$9 in the first oil shock in 1973 and again to \$27 in the second oil shock in 1979. But did you ever imagine oil at \$75 a barrel?

LOUGHEED: No, I didn't. I knew it would go up pretty steadily, but I never expected that, and there is a multitude of reasons, as we both know, for that happening. But no, I wouldn't have said that leaving government with the price at \$27 a barrel of oil, we would

now be talking about \$70-plus, no, that wasn't in my forecast for the period of time that we are into now, which is 2006.

PO: Even back then, though, what was the forecast for the tar sands or the oil sands for the operating margins for when they would become profitable?

LOUGHEED: I think it was about \$35 a barrel. We also, and we were right on this, thought that the companies would work hard at reducing their costs, reducing their operating costs, and they did, and they eventually brought, before the last wave, the operating costs of the oil sands down to \$13-16 a barrel factor. So that was a big thing, the operating cost reduction. It was a brand new world-wide operation and they learned what they were doing and they were smart Canadian engineers. There was nothing dramatic, they just continually worked at improving their process up in the oil sands, and it was really impressive to see.

PO: You recently expressed some concerns on the oil sands about on the environmental side, on the structural side, on the impact — I wouldn't call it reckless growth, but exponential growth in the economy that could create some problems, starting on the

environmental side, for example, using natural gas to get the stuff out.

LOUGHEED: Well, that is an environmental issue, but it is also an economic issue. It doesn't seem wise to use natural gas, although we have had some discoveries in the province. We are flat, we are not gaining in terms of our natural gas production in the province. We have to be careful with that, and stretch it out. So in my view it is such a valuable resource, it shouldn't be used for the oil sands, it should go right into the market place within Canada and in the United States, and that would be the best economic use of natural gas.

PO: And on the infrastructure side, you have also expressed some concerns about managing the growth.

LOUGHEED: Well, the Alberta government has let the development get ahead of the infrastructure. When you have that happen you are going to start to have to pay a price for it. Just fly over the highway between Edmonton and Fort McMurray — it looks like Fifth Avenue, New York. And underneath they have made a mistake in letting the development get too far ahead of the infrastructure. You have got to balance it, and that is when we developed Syncrude, and we worked

very hard on that. And I mean infrastructure, I am talking about the highways, the utilities, the schools, the hospitals, and all the services that are required in Fort McMurray.

PO: I gather you also have concerns about the deferred or forgone royalties to Alberta out of the oil sands.

LOUGHEED: What about the people of Alberta? How do we get our return? Well, we get our return in terms of the conventional oil and gas production as a percentage of gross revenue.

PO: That is, what, a 20 percent royalty?

LOUGHEED: Yes, and when we developed the oil sands, because both the technology and the risk element was higher, in order to get the companies to come together, we had to move to a net profit basis, and it was the right thing to do. We negotiated that and we got Syncrude encouraged enough to move ahead with a major oil sands plan. Suncor was there, but they were smaller, and the net profit approach was the right one, but what does that mean? That means the return to the people of Alberta, who own the resource, and a lot of people in this town have a hard time with the word "ownership." But the ownership is with the people of Alberta. When you have a net profit position based on ownership, that's fine, unless and until now we get overruns of costs like Shell starting off with (a plant) at \$5.5 billion and ending up with \$13 billion. Well, the higher price absorbs it to a degree, with Shell, but when do the people get their return? Well, they don't get their return until after the whole payment of the capital cost has been paid off. There is no royalty payment coming from Shell for quite a number of years. That means the people of Alberta, as the owner of the resource, are getting substantially less in the immediate term...maybe 15 years from now they will get it. So what is the hurry? Why not build one plant

at a time, and I hope the new government in Alberta will reassess this and come to the conclusion that the mess, and I call it a mess, that is Fort McMurray and the tar sands will be revisited.

PO: Yes, I gather, in human terms, the living conditions in Fort McMurray aren't very good, and the school and hospital facilities are somewhat inadequate.

LOUGHEED: Very, very poor. I was just up there on a trip, just helicoptering around, and it is just a moonscape. It is wrong in my judgement, a major

How can you, as a parent, convince your son to go and take a course and learn a trade when he says, "Dad, my friend has just gone to Fort McMurray and he is making ten times more than I made last summer." You know, that is a social issue in itself, and it is deeper than that, because it is an educational issue. You want to upgrade your skills, and so you go up there, and maybe it is skilled work, but usually in Fort McMurray in the construction phase it would be relatively unskilled work challenge that the individual would have. I don't see where the gain is in that. It is better that they go to technical college or learn a trade.

wrong, and I keep trying to see who the beneficiaries are. Not the people in Red Deer, because everything they have got is costing more. It is not the people of the province, because they are not getting the royalty return that they should be getting, with \$75 oil. So it is a major, major federal and provincial issue.

PO: Stats Can put out some numbers recently that were really very startling. The economy in Canada created 216,000 new jobs in the first half of this year, of which 69,000 were created in Alberta. Put it another way: one-

third of the new jobs in the country this year have been created in a province with one-tenth of the population. Does that concern you?

LOUGHEED: Yes. It is not a good news story to me, it is an extreme overheating, and it is not a good thing to have happen. I mean, who are the beneficiaries of all of this? First of all you create an inflationary environment in the country. And we see right now, sitting here in the city of Calgary, the cost of living, the cost of houses is higher than it should be. If you build with those inflationary prices you are going to pay in a number of different ways, people on lower incomes are going to suffer, living in a city of this nature and a province of this nature. People that have come here from elsewhere will find it hard to adjust, find it hard to get suitable accommodation. There are a lot of negatives about an overheated economy, and we truly have an overheated economy in Alberta today. And the question is the sustainability too.

PO: Are you concerned about some of the labour force mobility issues? For example, the high school drop out rate here is one of the highest in the country, because kids are leaving school to drive trucks at Fort McMurray at \$60,000 a year.

LOUGHEED: How can you, as a parent, convince your son to go and take a course and learn a trade when he says, "Dad, my friend has just gone to Fort McMurray and he is making ten times more than I made last summer." You know, that is a social issue in itself, and it is deeper than that, because it is an educational issue. You want to upgrade your skills, and so you go up there, and maybe it is skilled work, but usually in Fort McMurray in the construction phase it would be relatively unskilled work that the individual would have. I don't see where the gain is in that. It is better that they go to technical college or learn a trade.



Colleen De Neve, Calgary Herald

Former Alberta premier Peter Lougheed, at ease at his Calgary law office. He's concerned about the inflationary effects of Alberta's "overheated economy" and says the current Alberta government has "made a mistake in allowing the development of the oil sands to get ahead of the infrastructure" of Fort McMurray, which he calls "a mess."

PO: There was another Stats Can number that stood out, and that was 3 percent inflation in the first half in Canada, and 7 percent in Alberta, driven by wages.

LOUGHEED: So think about that, and think about who benefits by that. If you have 7 percent wage inflation in Calgary, who is benefiting by it? Not a lot of people. When you get inflation, everybody is in a different situation. You also have the risk if it turns down, and a lot of people get badly hurt. But the major, major loser is the people of Alberta, through the Treasury.

PO: Would you say that the big challenge for the next premier of Alberta would be managing success?

LOUGHEED: I think there will be many challenges, but I think on the economic side it will be trying to

manage the development of the Alberta oil sands.

PO: I know you have always been interested in the Federation and the management of it, and the evolution of it. Do you have a sense that economic and political power is moving west?

LOUGHEED: Well, I suppose you start with the fact that the prime minister comes from here. That always makes a difference. We had Mr. Diefenbaker, and Mr. Clark briefly, and I think it is different when the prime minister isn't from Quebec, where prime ministers have normally come from. But I think that the economic and political power depends largely on the mix in the federal system of the provinces and the federal government. I am biased, because in my time Alberta was still a small province, but we tried

to play a leadership role in Canada, and in many areas — energy, the Constitution, and so forth — by working with other provinces. You don't have to be big in population or seats in the House of Commons; if you use your imagination as a provincial premier and if you build up allies, friends and supporters, it is surprising how much you can get done. Mind you, I was fortunate to live in an era where we had outstanding premiers. There are many good ones now, but I lived in an era with Bill Davis and a group like that of outstanding premiers. But I think there is an opportunity for a new leader in Alberta to pick that up and become a leader in Canada so that the federal system is a balance between the federal government and the provincial governments working together co-operatively.

PO: Does the prime minister from Alberta have to sit down and have a conversation with the premier of Alberta about the horizontal fiscal imbalance at some point? And what is your sense overall?

LOUGHEED: The fiscal imbalance is a very tricky one. I was involved in it. It is very complex and you can't easily answer it in an interview question like this. The federal government has to get an equalization formula right. They have this recent report, which was surprisingly led by Al O'Brien, my former deputy of finance in Alberta. And Al's report is that 50 percent — he picked an arbitrary figure — of the revenue should go in the formula, and he also said it should be all 10 provinces, not a hand-picked five. It is a very complicated but crucial subject for Canada and for the federal government. They have got to come to grips with this, and I am sure they will. Mr. Harper strikes me as the sort of individual who will understand it, and I think over time they will resolve it. But it is a typical federal/provincial issue for the country, because you have got such diverse situations here.

PO: The federal government, in its discussion paper around the budget, indicated they have other things that they want to bring to this discussion in the fall, first, a strengthened Common Market clause, (section 121 in the *British North America Act*), and second, they want to have a discussion around post-secondary education, higher transfers from the federal government to the provinces. What is your sense of that?

LOUGHEED: Well, those are two important issues, that I agree with, there is no question about that. The post-secondary one is a very difficult matter of the role of the federal government in post-secondary education. I favour a role, and I have always been very supportive of the federal government, and the Liberal government did well in terms of the scholarship

issue and the Canada Research Chairs. I think the federal government role in post-secondary education is best in the scholarships, the bursaries, the research chairs. As you know from my background, I believe that they should shift the whole question of public financing in this country

We would not have had the Charter without the notwithstanding clause. A lot of people have forgotten it, and part of the reason they have forgotten it is because the current governments are afraid and shy away from using the notwithstanding clause, in particular the federal government, although I imagine they would have liked to have used the notwithstanding clause, but they are politically afraid of it, for some reason, federally.

under the Constitution, and the expensive ones today are at the provincial level. And that seems to be something that Mr. Harper — if he follows through on what he says — has got to move on, and that is really overdue in our country.

PO: And strengthening article 121 of the *British North America Act*, which is a discussion I am sure you are very familiar with.

LOUGHEED: That's right. Well, you mention the Common Market clause — we worked on that, and we started to get some progress on it. Quebec, let's face it, has always been a problem here, they have not been prepared to be as open about it and as flexible, but I think there is some possibility that could change. As we just saw, I commend the current government in Alberta for their relationship with British Columbia. A completely open trade basis between our provinces — that really could be a beacon for what could happen in other parts of Canada. I hope so.

PO: A couple of constitutional questions. We are coming up to the 25th anniversary of the Charter of Rights, in 2007. There has been a lot of debate in the last couple of years about the notwithstanding clause and its role in the Charter. There seems to be a general view that it is not part of the

Charter, and I have always understood that it was the deal-maker.

LOUGHEED: It was the deal-maker. We would not have had the Charter without the notwithstanding clause. Well, you know, that is the history of it. A lot of people have forgotten it, and part of the reason they have for-

gotten it is because the current governments are afraid and shy away from using the notwithstanding clause, in particular the federal government, although I imagine they would have liked to have used the notwithstanding clause, but they are politically afraid of it, for some reason, federally. What I don't understand is why the provinces haven't used it on certain occasions, and as a result of that the force in the notwithstanding clause hasn't been what I had hoped it would be. But it is there, and it will stay there, and as a result, some time in the future we are going to see a case decided by the Supreme Court of Canada whereby a provincial government, probably not a federal government, is in fact going to use the notwithstanding clause.

PO: Is there a risk in terms of its legitimacy that if it falls into disuse, it could be like the power of disallowance in the *BNA Act*?

LOUGHEED: Yes, good question. I am worried about that, because we are talking about 25 years, and the fact that it hasn't been used in an operative case with an activist court. What concerns me is that it is sort of the tradition in Canada to say, "oh, that is there, but we don't use it." And I am concerned about that. I am almost hoping that there will be a set of circumstances where the court will go one way, and the province will go

the other way, because I remember facing that issue. And I can use an example, by the way, because when I was still in government, shortly after the Charter, we got into the question of not allowing the hospital workers to have the right to strike. So we brought in legislation, and what we said to the union people was that they should know, with the introduction of the bill, that if they challenged our legislation and were successful we would use the notwithstanding clause. The only thing in that particular case that was unusual is that every single court ruled in the province's favour. The trial court, the appeal court and the Supreme Court of Canada all ruled in the province's favour, that it could, in fact, do what it said and make the distinction with regard to the emergency services in the health care field.

PO: We now have two constitutional traditions, it seems to me, in this country: the Charter and the *BNA* tradi-

tion (*The Constitution Act* of 1867). Do you have any sense that the Charter is swamping the *BNA* tradition?

LOUGHEED: Yes, I do.

PO: That the rights, the issues overwhelm the division of powers in sections 91 and 92 that we all learned in school?

LOUGHEED: Yes.

PO: Do you worry about that?

LOUGHEED: I do, I think the court is too activist, I think that is part of it, not completely, obviously, but overall I find they are too activist. I just keep hoping that the response to that will be the use of the notwithstanding clause in some case down the road there.

PO: It seems to me that Mr. Harper is very much a *BNA* prime minister focused on sections 91 and 92 and the division of powers.

LOUGHEED: Oh very much so, more than I have heard for a long time.

PO: But he has promised he would never use the federal spending power unilaterally in areas of provincial jurisdiction without the consent of a majority of the provinces.

LOUGHEED: That is the reading I am getting from what he says.

PO: And if he respects that, do you sense that there could be...it might be exaggerating to say a generation of constitutional peace, but certainly the federal spending power and some of the unilateral occupation of provincial jurisdiction by the federal government going back to the Trudeau years has been problematic. I am thinking of the NEP, for example.

LOUGHEED: Well, I think the NEP is a perfect example, because it is the highlight one. I think there is a possibility that under the Harper government you will see a rebalancing of our country in terms of the role of our provinces and the role of the federal government.



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