

Excerpt of Premier Peter Lougheed address to the Calgary Chamber of Commerce, Calgary Inn, Friday, February 13th, 1981

Mr. Chairman, head table guests, fellow Calgarians and Albertans - first of all I would like to say how much I appreciate this opportunity to communicate with you on some extremely important provincial and national issues.

I would like to say to the Calgary Chamber of Commerce how pleased I am with the progress of your organization, congratulate your current Executive and wish your new Executive to be elected at your upcoming annual meeting, the very best in their year. Obviously, this Chamber has become even more significant as a focal point, both for this exciting and dynamic community and as a forum for business opinion throughout Canada. It is clear that the increased involvement and participation by the business community in the Chamber, working with the Alberta Chamber, is continuing to have an ever-larger degree of influence on business issues throughout the country. That was evident by the efforts of the Chamber on the crucial energy questions at the annual meeting of the Canadian Chamber in Quebec last fall.

My purpose today is to primarily review the energy scene. I have not spoken in Calgary on this crucial issue since October 30th (1980). - some three and a half months ago. I think it is important for me to outline the consequences of the Ottawa energy programme and update you and the citizens of Alberta on developments as seen from our perspective. It is important to continue communication with Albertans on this issue. I hope that you will respond to my remarks so that we can in fact have a dialogue.

Before moving to the energy issue, I want to refer to the important question of the Canadian Constitution. I believe most of you are well aware of the constitutional proposals of the Ottawa government are interrelated to the energy resource matters. I believe that you are also well aware that the amending formula proposed in the Ottawa position would allow a further dilution of the resource rights of Alberta and other provinces. Also, you will be aware that the proposals from the Parliamentary Committee and Ottawa to the Federal House of Commons and Senate with regard to indirect taxation because of the small freehold position all of our resources. Even more important- the advice we are receiving on the wording of resource, rather than strengthening the ownership rights of the provinces, will in fact weaken them by judicial interpretation thereafter.

At this time, I sadly make this observation. I thought we were involved in these constant constitutional meetings with one basic objective - to unify this country. In my judgment - and I believe the judgment of many others - the result, particularly of the process being undertaken by the Ottawa government, is exactly the opposite. Rather than bringing this country together, sadly I think it will further divide us. To impose - or attempt to impose - a Constitution, upon a federal state such as Canada, with the majority of provinces and people in the region's opposed, will produce disunity and bitterness in Canada at a time crucial in our history.

I would like to move to the Ottawa energy programme. What is the real objective? It is not an overstatement to say that the basic objective of the federal energy proposal of October 28th (1980) is an attempt to take over the resource ownership rights of his Province and others in due course. The taxing and pricing powers of the federal government have been used in a clearly discriminatory way primarily directed at two million Albertans and to a lesser extent at citizens of in British Columbia and Saskatchewan - unparalleled in our history. The essential word to describe these proposals is unfair. They basically changed the rules of Confederation.

They change the rules in terms of resource ownership rights to the provinces. You and I, and others asked a fair question - could this conflict have been avoided? I have concluded, without question, that the answer is no. If the basic objective of the Ottawa government is taking over, it cannot be really interested in negotiations. They are prepared to go as far as they think they can push. They have counted on Albertans either capitulating through the loss of support because of the damage to a basic industry, or by the Alberta Government overreacting to permit their acceptability in other parts of Canada by way of legal take over under emergency powers. Ottawa indicated to us last summer that they were not really interested in negotiating differences - the details of our position on this were well expressed by Merv Leitch (Hon C.M. Leitch, Minister of Energy & Natural Resources, Government of Alberta) in a Legislative Assembly report recorded in Hansard on November 3rd, 1980.

Let me trace the negotiating history of the current situation. We had an agreement on pricing which concluded on December 31st, 1979 which was extended for 6 months. Hence, it was clear that we had to negotiate a new agreement with a Clark Administration during 1979. It has to be a negotiative process between the province's owning the resources is and the federal government who have control of interprovincial and international trade and commerce. The 1979 negotiations were difficult because the senior officials of the Federal Department of Energy, Mines and Resources essentially wanted to nationalize this basic private-sector industry. The only progress we were able to make during 1979 was when we were able to move beyond the official level. The arrangement of December, 1979 was fair to Alberta and good for the country as a whole.

When we faced the new negotiations of 1980, we started with the position that we would not accept less than the same net benefits as negotiated with the Clark Administration. When I met with the Prime Minister on July 25th (1980) in Ottawa, we decided we must take some important measures to avoid a significant confrontation. We compromised in a significant way - well beyond what some of my colleagues wished us to do. We took the position that we would not seek world prices, nor seek 85% of world prices, but accept a major and significant discount of 75% of our rapidly depleting oil staged in over a four-year period and based on the North American price. With natural gas - we would do even more, with incentives for conversion and transportation paid for out of the Alberta Treasury. We felt it was important that total Canadian potential requirement for natural gas was fully realized. In addition - as part of that proposal- we were prepared to make very large and substantive commitments to oil sands accelerated development -\$ 7 billion from the funds of the people of Alberta for debt and equity. Also, we propose to commit to a permanent infrastructure and workforce for accelerated development of the oil sands together with the significantly lower royalty that we had in the Syncrude agreement.

There were a number of other commitments made in the interest of settling this matter to improve Canadian oil supply in order to reach a goal of Canadian energy self-sufficiency. Our July 25th (1980) offer was, in my judgment and the judgment of many others, clearly good for Canada and fair to Albertans. It contains some important key conditions and what were they? Not the petroleum industry centered in our province not be subject to punitive taxation - certainly not subject to a natural gas export tax for a well head tax on gas or oil - but most important not subject to punitive taxation thereby reducing activity.

This proposal of July 25th (1980) made on behalf of the people of this province - was, as you know, flatly rejected. There was no counter-offer. We knew after that meeting that Ottawa had no intention of negotiating the difference and we warned Albertans of an upcoming storm during

the months of August and September. The storm came on October 28th (1980) with even more extremity than we had anticipated.

Before going on, I think it is important to step back and trace some history before assessing the consequences and the implication of the federal moves of October 28th (1980). First of all, I believe that it is important to emphasize that the petroleum industry developed without significant help from the Federal Government or the Government of Ontario. A myth has abounded in this country then in the 1960s the Ontario Government did us a great favour by buying our oil at more expensive prices than could be purchased elsewhere. We have studied this situation and if a quality comparison is made. It simply isn't true. Even if it had been, then surely in the judgment of the people in the Ontario Government at that time made the decision based on the benefits derived by the people of Ontario in having a secure or source of supply, which should have overridden any question of a normal difference in prices. In any event, the facts are different from the myth. That myth needs to be punctured by all of us because it is being used in a significant way.

The next thing I want to say about historical relationships is that the taxes of the federal government during the 1960's and early 1970's discriminated against Canadian ownership. Explorers had to seek their support elsewhere - their cash elsewhere. It was only in the 1970's that a belated recognition was made by the federal government to adjust their tax situation creating drilling funds, to give the tax incentives and to place Canadians in a comparable position. The result of course was the start of a very significant Canadian participation in the Canadian oil and gas industry.

Let us go back to the early 1970's when the Alberta Government - newly-elected - as the owner - worked out a satisfactory relationship with the industry as explorer and producer. This was not done without difficulty, not without tension but it worked out in 1974 and 1975. Once we had this relationship the watchword was consistency and stability. This relationship involved a royalty structure, exploration geophysical incentives, drilling obligations and enhanced recovery incentives and others. The petroleum industry in the Alberta Government also joined forces in a co-operative way to get some realism in terms of pricing. Those who remember, will recall that we started with a base of 16 cents per mcf. (thousand cubic feet) with regard to natural gas at the wellhead. We worked together to achieve fair pricing for a depleting resource.

What were the results of these Arrangements in 1974 to 1980? Record drilling, significant oil discoveries, major new gas fields and a higher degree of effort to increase the recovery from our existing production. Let us pause and ask the question - what was the situation last summer? In the summer of 1980 (for the Canadian energy industry, oil and gas in particular) we had a strong and viable petroleum industry prepared on all fronts to accept and meet the challenges of energy self-sufficiency in Canada in the 1980's; updated rig fleet; world-renowned technical skill and capacity, in demand as many in this room know, in other parts of the world; and planning of numerous enhanced oil recovery programmes. An industry prepared to commit massive risk funds for exploration and development in the western sedimentary basin as well as offshore and in the frontier. An industry prepared to commit to new oil sands plants and expansion of two existing two plants- prepared to do so in the summer of 1980 despite better and an immediate net back prospects in the United States) due to encouragement, stability and long-term prospects in Canada. Prepared to continue to be one of the very few growth industries for Canada - one that through the 1970's created a booming western Canada - one that created orders and jobs in Ontario, Quebec and Manitoba - one that brought hope for economic strength too many Atlantic Canadians.

This was the situation in the summer of 1980 - Alberta centred in the Canadian energy industry - ready and willing to be the engine for Canadian economic vitality for the 1980's and beyond. It has all come to a crashing halt due to the Ottawa announcement of October 28th (1980).

What are the main features of the Ottawa programme? Oil prices at wellhead fixed by the federal government at less than half of value and for a number of years increases not even covering anticipated inflation. Domestic natural gas prices fixed at even lower levels. An export tax on natural gas - this is crucial. The Ottawa programme takes away from the risk investor concerned about shut in natural gas and market problems - the rainbow of the potential American market. Next, the tax at wellhead of domestic natural gas and a major production tax or federal royalty on both of oil and gas. Taxes in the aggregate which have been assessed by many as reducing the cash flow of the Canadian oil and gas companies by 20 to 30% from the expected 1981 levels. A process of encouragement of activity on federal lands and clear discouragement of activity on provincial lands. An approach in the name of Canadianization which will result in significant 'nationalization.' Those are the main features of the October 28th (1980) energy programme of the Ottawa government it is. The description I have for this programme - not overstated - is a recipe for economic disaster for Canada in the 1980's. Others have described it in their own terms. I believe it will be an economic disaster.

I want to move next to the motives involved. One of the motives - I don't think I am overstating it - is that a small select group in Ottawa wants to nationalize an industry so they can fully control it. They have no seats to lose in this part of the country, no Chrysler, no Massey-Ferguson manufacturing in the west. We look at the automobile industry - talk about foreign investment! Look at the petroleum industry - they are already very heavily regulated and sovereignty is protected by resource ownership rights of the province. It is control in Ottawa not Canadianization that is the motive. It is an obvious smokescreen to say that it is Canadianization. It is fashionable and parts of this country to attack multinational corporations who we invited into this country. It ignores the history, contributions and the potential for research and development. It is serious in terms of jobs for Canadian oil and gas companies. It seems that they care not a whit in some parts of Ottawa for jobs in this part of Canada. We look at the treatment of a company like Chrysler - the different way in which they are treated is a disturbing sign of discrimination in the extreme to me. I am trying to control my emotions! I favour Canadianization but not in Ottawa's way. Incentives to Canadians yes, but not penalties to those who are already here. We were in fact doing something about increasing significantly the Canadian ownership of the oil and gas industry. I think we are entitled to see statements by some political leaders - as I am trying to do today - recognizing the employment situation of many working for so-called multinational firms, in addition to the Canadian ones, who have been involved for so many years and whose jobs are being threatened by his so-called programme of Canadianization.

I think the second motive is about control. What kind of a Canada do they want in Ottawa? I believe they really want a unitary state where any decision of substance is made in Ottawa. They recognize they have to cater to Ontario and Quebec to stay in office but this select group cannot accept any other province becoming moderately independent and not subservient to them for federal discretionary grants. Well - it must be something to hear the discussions in Ottawa - they must say that upstart province will never do - imagine it could get out of control - it might not be just Alberta; it might then be British Columbia. What about those people in Newfoundland - they are showing the same disturbing tendencies. We had better stop it before it gets out of hand - we had better club them into submission in October 28th (1980) was the date they chose.

Some of you may say this is harshly put - but these, in my judgment, are the true motives of what the October 28th federal proposals are all about. It is naive for us not to see through them and be aware of them.

We have responded in a number of ways with the prime objective to force the Ottawa government to reconsider their energy programme. To make them realize they can all have oil self-sufficiency in Canada without cooperation, without working with the major provincial producing provinces such as Alberta. To make them realize that the discrimination is causing bitter divisions in our country. To make them realize that the Alberta Government has significant support from the people of this province in standing up for their rights.

Our first approach was to cut back on conventional crude oil which will start on March 1st, 1981. Why? To balance the federal unilateral move to control prices re-establishing or ownership jurisdiction to control the rate of production by leaving a fair portion of a rapidly depleting conventional oil reserve in the ground. In practical terms this will enhance its value and not affect jobs in Alberta except in a minor way. It appears, since my telecast on October 30th (1980), this approach has received overwhelming acceptance by Albertans. Ottawa is still able to buy replacement oil. In fact, it seems to me and perhaps to you, that they prefer to buy it from Mexico rather than Alberta! The Prime Minister finds it in the Canadian interest not to negotiate with Alberta for \$17 to \$18 per barrel oil, but to buy from Saudi Arabia at \$40 per barrel. That- by the way- is a message that is penetrating very effectively in other parts of Canada. Some, I think have underestimated the significance of this decision. It is unprecedented in Canada. The cut back in production will amount to 180,000 barrels of oil per day plus, or 15% of our conventional oil in three stages. It is crucial in endeavouring to create an atmosphere where there is a reasonable possibility of a reconsideration of the federal proposals.

the second action that we took refers to oil sands plants. We are not prepared to sacrifice existing jobs in the conventional oil and gas industry for new jobs in oil sands plants. If all the way once Alberta's operation oil supply, they must be fair to us and to our citizens with our existing conventional industry in reserves. This approach has gained the support of Albertans October 30th, even more than I had hoped and we will respond as I have stated on other occasions to the concerns of the communities adversely affected by our decision.

There is a third part of our response- it involves everybody else. We must try to convince other Canadians of the folly of Ottawa's energy moves, in cooperation with the industry and with citizen groups. I really do think we have made considerable progress in the three and a half months that have ensued. The Alberta Government has been joined by British Columbia and Saskatchewan in a statement by all three energy producing provinces that is very strong. We have fully utilized a multitude of communications channels over that period and will continue in the months ahead with the same result. The petroleum industry - in these past three and a half months have in my judgment- Mr. Leitch's judgment and many others - done an excellent job in public communication of the basic data and consequences. Many groups have been involved. The Independent Petroleum Association of Canada is to do an assessment on the Canadian companies; the Canadian Association of Oil Well Drilling Companies with their casualty reports; the Canadian Petroleum Association with their evaluation of supply for the future; the new Energy Services Association of Canadian companies who have been most seriously damaged in the services areas; and many other industry groups as well as many citizens groups including the Chambers of Commerce.

What has been the result? Frankly, I think the result has been a consistent course of used by Canada-wide organizations condemning Ottawa's approach and recommending constructive approaches to Canadian energy and economic progress. I don't have time to enumerate but let me deal with the last two. Yesterday- in Ottawa, six Industries under the name of the Canadian Manufacturers Association including groups involving chemicals, steel, machinery and plastics, presented a proposal for realistic energy pricing. Just the day before, a canvas by small businessman was presented to the Canadian Independent Businessmen's Association to press Ottawa to come to its senses on this policy. It has been remarkable period of time but it must be sustained and we shall not be discouraged. We all know it is not an easy sell. What you are really saying to the consumer and other parts of Canada is that yes, the realistic approach is to pay more, he would others are paying, hey what Americans are paying today, in order to assure supply in the future. To get across to them the significance of the industry and its relevance to all of Canada. To help them understand the indirect negative aspects of the federal policies in manufacturing centres across this country. I think there has been quite a bit of progress in terms of awareness, judging by polls we have taken. I thought it was rather interesting to note that a well-known speaker in Brandon was recently forced to resort to a plea and said, "it appears that everybody that knows anything about its energy says I'm wrong so then I must be right!" I am sure you all know who the speaker was if you don't, ask your neighbour.

What has been and what will be the Ottawa government strategy on this issue? Firstly, they want to try to divide Albertans, to force a separate deal on the oil sands with no success whatsoever. Secondly, they have tried to turn the petroleum industry against the Alberta Government and they have had little success because we have had six record-breaking years of stability and consistency and both lessor and lessee see together fair prices. Next, their strategy has been to distort the figures to try to sell the rest of Canada on the idea that selfish Albertans are going to get millions anyway so what is it complaining about, ignoring the ownership rights to a wasting asset. Ignoring the risk element of an industry. The Alberta government's calculations of Alberta's production of petroleum and natural gas under the federal regime of October 28th for 1982-1983 on a four-year average is

- industry only 42% with their wrist position;
- federal government as the tax collector 30%; and
- Albertans who own the resource which is depleting, less than 28%.
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Our challenge as a government is to continue to communicate the distortion of the federal data throughout Canada and to give Canadians the correct facts.

What was their next strategy? It was to ignore the chorus of criticism and dissent and exaggerated a few isolated instances as evidence that the programme is working. To play up the odd exceptional case of company compliance caused by commitment on federal lands or a desire to fit in with the federal power despite awareness of the folly of the federal approach. To try to distort the fact that Ottawa is buying, for an exorbitant price, a penalized foreign company which will somehow increase the supply of Canadian oil. That is one of the strategies having some success but I don't think it can be sustained.

The most serious of the strategies of the federal government is their strategy to downplay to other Canadians the continued declarations by company after company, Canadian-owned as well, that it intends to cut back exploration and development expenditure in Canada. That it intends to move rigs, skilled people and investment funds, in serious proportions to the United

States. That is the only element of their Ottawa strategy that is working so far. The consequences are obviously serious for Canada. It means that the rigs, the people and the funds have to in fact go before the Ottawa government realizes it is falling overboard and damaged seriously a key industry. What a tragedy for our country.

What are the consequences of Ottawa's energy programme? I would like to briefly review them. As stated before, company after company, Canadian-owned and otherwise, we'll reduce exploration activity significantly in Canada. Some estimates put industry-wide cuts, from pre-October 28th planned exploration budgets, at 35% or \$2 billion and reduce cash flow with discouragement being the primary reasons. The impact is particularly hard on Canadian owned drilling and oil well servicing companies threatening jobs and viability, reducing purchase orders in Ontario, Quebec and Manitoba by manufacturers and suppliers.

Next, that the cutback causes a drain from Canada of talent and entrepreneurship to the United States - very difficult to encourage back. Next, that it involves expropriation of funds from Alberta oil and gas production by Artois greater than the funds received by the owner of the resource. It will damage the Canadian own segment of a crucial Canadian industry which has been growing and it will allow Petrocan in my view to prey upon companies least able and prepare to withstand the pressures that are involved.

In addition to this, the Ottawa programme will be damaging to Canada's economic vitality and future, firstly, because Canada will become increasingly more dependant upon insecure supplies of oil from unstable regions of the world. The recent submission to the National Energy Board confirms this conclusion. As additional evidence, the cancellation of enhanced recovery projects like Judy Creek as well as the cancellation of expansion to existing oil sands plants. Secondly, the artificial low prices for Canadian energy will continue to assure that Canada is the largest per-capita consumer of energy among the 24 O. E. C. D. countries of the western developed world. There is no encouragement for conservation in this policy and the United States experience has shown the folly of that approach.

Returning to the Canadian economy overall - it will stagnate the economic boom in western Canada as the energy projects are delayed. The Economic Council of Canada and many others have pointed this out. The benefits that have been seen in other parts of Canada from a booming West will no longer be there. Finally, it has ignored or not understood a Canadian industry - the natural gas industry - with an export potential for British Columbia and Alberta which has been declared - can you imagine - by Ottawa government, to be redundant- truly unbelievable! I wanted to go into detail today on this subject but the overview I felt was necessary. I therefore wish to develop the whole question of the sound natural gas policy for Canada including pricing and marketing on another occasion

Let me conclude this way. I stated in November that the Alberta Government would shift to a series of new policy initiatives to assure the general economy of our province at least to remain strong. I will elaborate on the progress we've been making at a later date. At this time - this February 13th - there has been no indication from all that they are prepared to significantly restructure their pricing and taxing provisions. We are in - I think for a long haul. As mentioned, it seems tragic but we may have to prove that these statements are not just crying wolf but are in fact going to occur.

What about each of you as individuals or representatives of organizations? What can be done - can you get involved? Many of you have asked that, it has got to be frustrating - it is to me too-

but Ottawa holds you are going to give up- Ottawa hopes you're going to get discouraged and say 'what's the use?' and then take the pressure off them. I am not going to give up- neither are my colleagues so I say to you - don't please. Sure, it is tough sledding but it has to be done. The awareness in central Canada of these issues has to penetrate. I think we have had great success in an awareness that the management level in central Canada- the next step are the employees of those concerns whose long-term security is jeopardized.

I suggest you ask your associate's in business for a chance to talk to their employees, not just to meet with them in the boardrooms. To move the discussions to all the people that are involved. To keep up the communications and improve the understanding.

Finally, I know it is a very difficult time for you and me in Alberta - we will be even more extensively and personally insulted and attacked by our opponents. Our love of our country- as we understand Canada to be - will continue to be unfairly questioned by some. Our accomplishments in this part of Canada will be belittled and ignored and we will be under intense pressure to capitulate, to surrender our rights and our control over our destiny. It will be difficult; it will hurt and some will bleed but I am confident that I'll burdens are up to the test and we'll weather the storm.

I want to close this way – let us look ahead- difficult as the times are. I see a different vision of Canada than this small select group in Ottawa- a much different vision. A vision of a nation where harmony stems from prosperity in all the regions. A vision of Canada where the prosperity of one region is recognized as beneficial to the others. A Canada where bitterness and frustration is replaced by a weariness that equity and fairness must remain wherever you live and whatever the colour of your political map. As Canada which grasps its incredible opportunities to make its resource potential combined with its killed private enterprise, into an economy that provides quality and security for our citizens both today and in the future. A vision of Canada where the philosophy that hard work pays is true, to risk our savings and to rely upon our personal initiatives is in the end of vision of Canada that is in the best interest of all. It can be done. We can weather this storm and no small elite in Ottawa can stop us for long. That is my vision for a positive Canada.

Thank you very much.