

Shifting sands: East vs. West

Resentment of things past

It's been 25 years since the National Energy Program tore the country apart. Now as Alberta thrives under a new boom, regional tensions threaten to resurface with a vengeance

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From Saturday's Globe and Mail

January 26, 2008 at 12:00 AM EST

EDMONTON — Ed Stelmach remembers clearly the anxiety that gripped him one day 25 years ago while driving home from a particularly gloomy meeting with the bank.

Then a farmer with two young sons, Mr. Stelmach was heading back to the homestead settled by his grandfather, wondering how he would pay for a new parcel of land he had recently added to his operation northeast of Edmonton. With interest rates heading toward 24 per cent and the national energy program wreaking havoc on the Alberta economy, the prospects weren't good.

"It was devastating," the Alberta Premier recalled last month in an interview from his third-floor legislature office. "You go to the bank and they tell you how much interest you've got to pay and I remember driving home that one day and wondering, 'What future do I have?'"

His future, as it turned out, was to survive the NEP and lead the province. But ask Mr. Stelmach today how he would react to a federal government tempted to apply an environmental tax on Alberta's oil-sands sector and you'll get a blunt answer.

"Back off."

Those two words sum up the current political climate around the incredible potential of Alberta's oil reserves, with some predicting new federal-provincial tensions reminiscent of those caused by the NEP.

With that policy in the early 1980s, Ottawa moved to increase Canadian ownership of the industry in Alberta and to capture a cut of the oil revenues. Compounded by the plummeting price for oil and by high interest rates, the program helped to torch billions of dollars of investments, devastating the provincial economy.

Big-ticket projects, such as the \$13.5-billion Fort McMurray oil-sands development known as Alsands, died off, construction cranes disappeared from the Calgary skyline and thousands of homes were lost. It laid the seeds for western alienation and the founding of the Reform Party, and sparked loose talk

of separation.

Most experts would concede today that the hated NEP was a misguided policy that no federal government would ever repeat.

But the boom being fuelled by the oil sands is bringing a new set of fears and regional tensions.

Alberta's oil wealth is already being blamed for the high dollar that is harming the nation's manufacturing base in Central Canada, while also helping to shift political and economic power to the West. And efforts to control carbon emissions alarm many Albertans, who fear that restrictions will curb development of the oil sands and their province's wealth.

"Is this going to present some real challenges to some parts of our country? Yes it is," Ontario Premier Dalton McGuinty said of Canada's environmental challenges in a recent interview.

Indeed, Mr. McGuinty himself may have provided the first hint of regional tension over the oil sands when he suggested to his fellow premiers last summer that they adopt a national carbon-trading system to combat climate change.

Under such a scheme, companies would be given emissions limits that they can exceed only if they buy credits from companies that pollute less. Although referred to as a carbon trading system, many Albertans see it as an outright tax that discriminates against their industry.

But six months after first pushing the idea, Mr. McGuinty has no regrets, saying a carbon-trading system cannot work without Alberta. "It's not sensible to even contemplate that," he said. "We need to be in this together."

Among those most worried about the potential national implications of the new boom is Alberta's premier emeritus, the blue-eyed sheik, Peter Lougheed, who ran the province from 1971 to 1985 and led the building of the Syncrude Canada Ltd. oil-sands plant.

In a speech to the Canadian Bar Association last summer, Mr. Lougheed envisaged a fight over oil-sands development that would be "10 times greater" than the divisive controversy engendered by the NEP.

Last month, in a small corner office atop a Calgary office tower, he said in an interview that "maybe, with reflection, '10 times' was extreme." But the environmental issues are "so sensitive to the public generally, as the polls show," he added.

"The national energy program was looked at as a battle between two jurisdictions over money. If [the next] conflict evolves as it might, on environ-

mental issues, it becomes much more emotional with citizens at large."

Experts such as Mr. Lougheed worry that a heavy environmental levy applied against Alberta industry would cause howls of outrage in the province. And because the environment is a jurisdiction that is shared by the federal and provincial governments, the mother of all constitutional battles over who regulates industry emissions could end up in the Supreme Court of Canada.

But it doesn't have to happen again, the former premier said. This time around, Ottawa and Edmonton can be friendly and open, and talk about creating the delicate balance between domestic economic growth while also meeting international obligations to curb climate change.

It helps that the current Prime Minister, Stephen Harper, is a Conservative from Calgary.

So far, Mr. Harper has managed to walk a fine line on the issue, criticizing the notion of a heavy carbon tax, but nonetheless pushing forward with a plan that would force companies to pay \$15 per tonne into a Climate Change Technology Fund to comply with yet-to-be-published regulations that take effect in 2010. The fee increases to \$20 between 2010 and 2017.

The Alberta government also has a plan, with a \$15 fee.

However, many critics say the Tories have not gone nearly far enough.

The three federal opposition parties, for example, advocate a model that is much steeper, penalizing emitters \$20 to \$30 for every tonne of emissions above Canada's Kyoto targets. And the National Roundtable on the Environment and the Economy said that, for Ottawa to reach its pledge to reduce Canadian emissions by 45 to 65 per cent by 2050, a fee of \$190 to \$240 per tonne is required.

A rise in rhetoric is also making Alberta leaders restive.

Last month, for example, federal NDP Leader Jack Layton told the House of Commons that the government needs to pull back on oil-sands development, lest their emissions of carbon nullify all other Canadian efforts to reduce greenhouse gases.

"The government is protecting the tar sands," Mr. Layton said in Question Period. "Why will the Prime Minister not stand up and say he will rein in the tar-sands development so we can meet our targets?"

Behind the scenes, there are also Liberals who believe that their party should advocate for an out-and-out carbon tax as a way for Stéphane Dion to restamp himself as the opposition leader best equipped to deal with greenhouse gases. Deputy Leader Michael Ignatieff proposed such a tax during the party's leadership campaign, and others still quietly agree.

That kind of talk is anathema to Mr. Stelmach. Although he will not say what he would do if the federal government intervened too deeply in the oil patch, he is not ruling out any course of action, including a constitutional challenge. "We'll take every action that's available to us in terms of protecting the constitutional rights of every Albertan," he said.

Then there's that roaring Canadian dollar, sparked by surging oil prices, which is hammering the country's manufacturing base and increasing the cost of Canadian goods being sold outside the country.

For his part, Mr. McGuinty would like to see Ontario find a way to hitch its wagon to the oil-sands star. "I'm a committed member of the team," he said. "And if one member of the team is able to begin to score more goals, that's a good thing for all of us."

At the same time, Mr. McGuinty and Quebec's Jean Charest led the charge early this month to get more financial aid out of Ottawa for parts of their economies battered by the soaring loonie.

The Ontario Premier says the dollar has "created a new tension that we haven't had in the past.

"I've got a slightly different take on this, obviously, than do others and my responsibility is to assert our position on behalf of Ontarians."

The answer, Mr. McGuinty says, is for the federal government to find a new value for the dollar that isn't "influenced primarily or even exclusively by an oil-based economy."

Although jealousy of Alberta has yet to become a major issue among rank-and-file voters, many Ontario manufacturers are feeling the brunt of a high dollar.

Kacee Vasudeva, the chief executive officer of an auto-parts company based in Waterloo, Ont., that manufactures everything from exhaust systems to brake rotors, says the dollar's high value has forced him, over time, to sell off two of his company's plants and to reduce his work force to 330 workers from 525.

Mr. Vasudeva, who started Maxtech Manufacturing Inc. from scratch, says he has received some aid from Export Development Canada, but he would like to begin manufacturing goods for the Alberta oil sector. He needs more government help to give him breathing space, he says.

"When farmers in Saskatchewan had a drought there, we all helped them. Nobody complains about it," he said.

In Alberta, meanwhile, there is no doubt that the province has a substantially greater ability to provide goods and services for its citizens than do other provinces.

According to tables prepared from federal documents, the province has the capacity, on average, to raise government revenues of \$12,374 per individual annually. That's about \$5,000 more than Ontario has and about \$7,000 more than Prince Edward Island, which has the lowest fiscal capacity. What it means is that Alberta has the potential for more and better hospitals, smaller class sizes, lower tuition fees and better infrastructure.

Perhaps because of the economic sting being felt by Ontario – its unemployment rate now hovers six-10ths of a percentage point above the national average of 5.9 per cent – Mr. McGuinty appears unwilling to sit back and remain silent for the good of national unity when he believes that his province is being treated unfairly.

He has attacked the federal government on everything from inequitable health funding to inequities in the employment-insurance plan. Most recently, he went after Ottawa for legislation that he says shortchanges Ontario when it comes to representation in the Commons.

Back in Alberta, some experts are saying the best way to avoid regional tensions or federal incursions is for Albertans themselves to demonstrate how their province's riches contribute to the whole nation.

“It's Albertans who have to make the argument that the accumulation of wealth in the province actually has national benefits,” said Roger Gibbins, president of the Calgary-based think tank known as the Canada West Foundation. For example, the province could join with Ottawa to pay for an environmental fund aimed at finding ways to ameliorate climate change.

But Mr. Gibbins also hopes that Canadians understand the scars left from the past. “It's important to keep in mind how the oil sands have been a holy grail in this province for 50 or 60 years,” he said.

“And there is an underlying fear that, just as we're about to grab it, it may slip away. And if there's a perception that it slips away and that the federal government has taken it, that's problematic.”

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