



Alberta Premier Jim Prentice in conversation with *Policy* Editor L. Ian MacDonald at the Premier's office at the Alberta Legislature on February 17.
Policy photo, Mike Storeshaw

Q&A: A Conversation With Jim Prentice

Nowhere in Canada has the plunging price of oil impacted politics more than in Alberta. Every \$5 drop in the price of oil costs the Alberta Treasury \$1 billion. Alberta Premier Jim Prentice discusses the challenges of oil politics in a wide-ranging Q&A with our Editor.

Policy: On the day you announced for the PC leadership last spring, oil was \$115 a barrel and the day you were sworn in as premier in September it was \$93, it's been as low as \$44 and is now in the low \$50s. This isn't what you signed up for but it is what you've been handed. What are your thoughts on coming into this?

Premier Jim Prentice: Well, it's a challenging question.

Policy: How has this changed your agenda for government, let me put it that way?

Jim Prentice: It's had a dramatic impact on the immediate challenges we face as a government. I don't think it changes the long term imperatives of what Alberta needs to do and it will speak about some of the changes that need to take place in our province.

I think, put simply, the precipitous drop in the cost of oil has underscored the need for

some structural changes in Alberta; it's underscored the need for market access, and underscored the need for economic diversification.

In all those respects it's been reinforcing of the views I've had of the future of the province and what we need to do. It has clearly had an effect on immediate priorities, on how we've gone about the budget process and some of the challenges that we face as a government to maintain core government services in the face of a precipitous drop in our revenue stream.

Policy: Every \$5 in the drop of oil is \$1 billion less for the Alberta Treasury, as you know better than anyone. You're now looking at a \$7 billion deficit in the next fiscal year and \$21 billion over three years. Is this a cyclical deficit or a structural deficit, or perhaps a combination of both?

Jim Prentice: Let me put it this way, Alberta has been through commodity price cycles before. There have been at least six in my professional life. This one, however, is different. It results from over-supply, which has ripened into a price war and as a result the fall has been more precipitous and will be longer in duration than other commodity price cycles that we've seen. Higher oil prices will inevitably return but the advice we're receiving from all the energy and financial analysts to whom we've spoken is that high prices will not return for the next two-to-three years.

What it has disclosed is a structural imbalance in terms of Alberta's public finances. Your question is a good one. The way in which we need to deal with the circumstances that we're in is with a long-term financial plan that deals with the underlying problems in Alberta's public finances and addresses the long-term structural imbalance that we've built up.

The origin of that imbalance is pretty clear. We have had the best of everything in terms of our public services. We have had the highest cost of everything in terms of our public services, including wages and salaries. Virtually anyone who works in public service in Alberta is more highly paid than other people in Canada.

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You can only keep those two things going at once without bankrupting yourself if you have a plugged number in the budget which has been oil revenue and it's produced somewhat of a roller coaster in terms of public finances.

My sense is that the public in Alberta have reached the point where they want to see that change. So someone needs to deal with that structural imbalance.

Policy: They say every crisis presents an opportunity, is this an opportunity for tax reform? For example, Alberta has a 10 per cent flat tax, where everyone else has marginal rates. How much of the deficit would be eliminated if you went to a marginal tax rate and have you run the numbers? Or is that a good conversation?

Jim Prentice: We're having conversations about things in Alberta that were unimaginable a long time ago. I don't think that Albertans want to give up the tax advantage that we have. It's something I feel strongly about. Alberta has a tax competitive advantage over virtually every other jurisdiction in North America. Albertans understand that and they want to maintain that.

So we're trying to make some of the changes that need to be made to address this structural imbalance, but we're also pretty adamant that we want to maintain Alberta's competitive tax advantage.

We currently have no sales tax. Albertans are adamant they don't want to see a sales tax. We currently have corporate income taxes, personal income

taxes, excise taxes on gasoline, sin taxes on cigarettes and tobacco, the absence of health care premiums. All of these things amount to a significant tax advantage that we intend to maintain.

Policy: Speaking of a sales tax, you allowed that to go up as a trial balloon that didn't last very long. Jack Mintz of the University of Calgary School of Public Policy has written that every 1 per cent of an HST would bring in \$1 billion. Five per cent would bring in \$5 billion, which would balance your books, given your \$2 billion of spending cuts, including a 5 per cent pay cut to your cabinet, including yourself. That would balance the books. But that's off the table, isn't it?

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Jim Prentice: Albertans don't want a sales tax, they've been clear about that. It's not a universal view but it's overwhelming. Last summer in the leadership race I made it very clear I don't support a sales tax.

As the price of oil bottomed out, somewhere around \$45 a barrel, I said publicly we needed to have a frank discussion with people in this province about what the alternatives were. If somebody felt

a sales tax was an alternative, this was their moment to speak up.

I encouraged the debate, and I said I stood to be educated, and Albertans almost overwhelmingly said, “No, thank you”. This is something that is held pretty deeply among Albertans who are not economists.

Policy: So, this dog will not hunt.

Jim Prentice: Albertans feel very strongly about this issue. I don’t want this to be misinterpreted. Across the province people have been strong about the circumstances that we’re in and people have said two things:

We want to see government lead; we want to see a compression on government spending. We will shoulder the responsibility, but we want to see government doing the same thing. They’ve also been clear they don’t want to see a sales tax.

Policy: In doing your budget numbers, where do you see the price of oil and how do you see it going forward?

Jim Prentice: We have a team of people who have a pretty solid record of projecting oil prices going forward and we receive a lot of independent advice. Currently, projecting as of today for oil prices for the 2015-16 year at \$61 per barrel, WTI prices, increasing to \$68 in the year that follows in 2016-17 and increasing to as high as \$75 the following year.

One thing I have done as I’ve travelled and been to Washington, New York, Houston and Toronto, I’ve field-tested the assumptions people are making about oil prices. They seem to be broadly accepted that those were the price levels we’re looking at.

Policy: There’s a pretty strong sense out there that rather than bring your budget to a vote in the Legislature, you’ll put it to the people in a spring election. What’s your sense about seeking your own mandate in an early election rather than waiting for 2016?

Jim Prentice: We do need an election eventually. In the legislation that we have in place, there needs to be an election by the window of March of 2016. The legislation does permit an earlier



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date. Clearly when that provision was put in place, no one contemplated the financial situation we’re in now.

“ I think Albertans need to have a say in that I think they need to be consulted. At the end of the day it will take some tough measures that will impact every person in this province. It would be irresponsible to not give them the final say in terms of whether they agree with that or not. ”

This is the most serious revenue decline this province has seen since 1986, producing economic consequences in our province that we have not seen in a generation. I think Albertans need to have a say in that I think they need to be consulted. At the end of the day it will take some tough measures that will impact every person in this province. It would be irresponsible to not give them

the final say in terms of whether they agree with that or not.

I’ve not chosen when an election will happen but I do think a premier and a government facing these kinds of exigent circumstances needs to have the strong support of Albertans.

Policy: If you wait till 2016, you could be campaigning in a mild recession. CIBC, your former bank, has come out with a report forecasting a 0.3 per cent downturn in GDP and unemployment peaking at 6.8 per cent.

Jim Prentice: There’s a range of expert opinions. The Conference Board of Canada was the first to say Alberta would slip into a recession and now CIBC is essentially saying the same thing. It’s a technical discussion in one way because what we are seeing in Alberta is a pronounced drop off in economic activity. Whether it’s a technical recession or not, economists will determine, but we’re seeing very serious consequences.

Policy: We’ve already seen a significant downturn in the oil patch with, for example, Suncor and Cenovus making significant job cuts and spending cuts.

Do you worry about a multiplier effect on the supply chain and a collateral hit on real estate markets, both residential and commercial? And is there an upside to this? Former Suncor CEO Rick George has called it a “cleansing effect” in the oil industry.

Jim Prentice: Alberta is a tough, resilient place. It’s a conservative, free enterprise, hard working province and we will get through this. I actually have enormous confidence about Alberta’s future. This is a price war that we’re in and it will test us to be sure, it will have some significant economic consequences for us.

It will also have some positive effects in terms of the labour market in the province in that it will allow us a bit of a breather to get caught up. At the end of the day, we’ll all be seeing a lower level of economic activity and lower levels of income and these are things we’ll have to grapple with.

Policy: Let’s talk about pipelines and start with Keystone XL. A year ago when you were at CIBC you made a notable address to the Manning Conference in Ottawa in which you said Keystone would not be approved on President Obama’s watch and it was time to look past this president to a new one in January of 2017.

But in your speech to the US Chamber of Commerce in Washington on February 4, you said: “I’ve long been an advocate for the Keystone pipeline and for its approval by the US government. In my view this project is in the best national interest of our two countries.” You called the delay “confusing for Canadians”. Of course you have a different role now as premier, but where are you coming out on it?

Just on nomenclature, the president calls it the tar sands, not the oil sands, and it drives people around here crazy. He ignores the report of his own State Department in terms of direct and indirect employment numbers. They say Keystone will create 42,000 jobs, and he says only a few thousand. What’s your sense of all that?

Jim Prentice: I’ve just come back from a very extensive trip to Washing-

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ton. I believe it’s in Canada’s best interest and in the best national interest of the United States. The president should approve it. He says he will not; he says he will veto the bill from the Congress.

I take him at his word that he will do that and from there it continues to move through the US political system with this very complicated interplay between the president and the Congress. I think from there it continues to move through the US political system.

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Policy: It’s not even about pipelines or even the oil sands anymore, is it? It’s about Washington gridlock and Washington politics.

Jim Prentice: I think it turns very much on politics in Washington. It requires a lot more discussion. If there’s a silver lining to what we’ve all been through on the Keystone debate, it’s that the level of bipartisan support in Washington is the highest I’ve ever seen it. I would add that the respect and appreciation for Alberta and Canada is higher than I’ve ever seen it, and I found even when I was a federal minister that it was sometimes hard to be heard in

Washington, and people in Washington did not appreciate the importance of Alberta and Canada’s oil production to the United States economy. That clearly now is understood. When you go to Washington today there’s no doubt that people appreciate that.

Our province of Alberta exports 2.5 million barrels of oil to the US every day, this is 50 per cent more than Saudi Arabia exports into the US market.

Alberta has become the largest supplier of US imports and so people now understand that we have more bipartisan support, the president remains opposed, so we will see how that goes.

Policy: Do you think the Americans understand how important we are to them as suppliers of energy? For example, a single pipeline company, Enbridge, transports more oil to the US than the Saudis do.

Jim Prentice: Five years ago I would have said the American public doesn’t appreciate the importance of Alberta and Canada, but today my sense is that they do. I’ve seen a profound change that we should not underestimate, and a willingness to integrate the North American energy marketplace on both sides of the border. I’m heartened by that, I think that’s a positive thing. We shouldn’t underestimate how important that is in terms of the next president.

Policy: For years we’ve been talking about transporting oil to tidewater in terms of diversifying our markets. The US accounts for 99.4 per cent of our oil exports and 100 per cent of our natural gas. Seven years ago when you were in Mr. Harper’s cabinet, he famously declared that Canada would be the next energy superpower, yet none of that new transport infrastructure has been built. What’s your sense of where we’re going on that?

Jim Prentice: We have to build export

infrastructure. Alberta needs pipelines in every direction. The current circumstances we're in have underscored the need to achieve tidewater access. I say that because, whether its low prices or high prices, international prices are still better prices.

We need to access tidewater, whether it's into the Atlantic Basin from Saint-John or the Pacific Basin on the West coast. That's how we'll get the highest value for our resources; we'll need to get international prices.

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I think the Keystone saga has underscored that reality for us as Canadians and certainly for us as Albertans. This government is more committed than ever to pipeline access.

Policy: What about the demand side and the business case for new pipelines, in the midst of a global oil glut? Energy East would add 1.2 million barrels a day, Keystone 830,000 barrels, Northern Gateway 550,000 barrels, the twinning of Kinder Morgan another 500,000. We're talking about 3 million barrels per day of new capacity. Do you see, in the long view, that much demand in the Asia-Pacific markets and the EU?

Jim Prentice: Yes, I do. Clearly, demand has softened over the course of the last year but I would take issue with your use of the word glut, I don't think there is a glut of supply.

The supply imbalance is actually very modest, less than 2 per cent over supplied, but it's produced a 60 per cent price drop. The world market is 93 mil-

lion barrels a day and it will find itself back in balance. The drop in prices is having the exact effect that people predicted. People are taking production off. It will be back in balance sometime in the next 18 months. At that point, prices will continue to rise again. Alberta in the meantime will continue to produce more oil.

We enter this year producing just over 3 million barrels of oil a day, and we'll exit the year producing closer to 3.5 million barrels of oil a day, notwithstanding low prices.

Policy: What about Energy East as a nation building project across six provinces from Alberta to New Brunswick? The conversations you've had with Premier Wynne and Premier Couillard, and all the other issues of First Nations participation and social licence. I sometimes wonder if the CPR would have been built in this kind of a conversation.

Jim Prentice: The CPR was for sure built in a simpler era... These are all the challenges that linear infrastructure projects face and we're not the only ones that face them, it's the same in the United States. I went down to both Quebec City and Toronto and met with Premier Couillard and Premier Wynne and had a frank discussion about the Energy East project. They both stood their ground in front of media in their respective capitals. They indicated that they were not trying to regulate upstream oil and gas activity in Alberta and that's Alberta's responsibility. When they spoke about carbon emissions, they were concerned about the pipeline.

I think there's a way for us to have a constructive relationship and Premier Couillard and I spent a lot of time together, and I think we can work together as partners in terms of climate change issues. I'm looking forward in April in going to the conference that he's hosting. I've also committed to going to the conference that Premier Wynne will have.

As you know, we are in the process of renewing and revitalizing Alberta's environment and climate change policies. Our intent is to be a constructive partner. One of the principles that will be founded on is to be a constructive part-

ner nationally and internationally in terms of climate change.

Policy: What about Alberta's leadership role in the federation? And what about the prospect of a Canadian energy strategy coming out of the Council of the Federation later this year?

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Jim Prentice: We'll see where that goes... I've never been an outspoken advocate for a national energy policy. Alberta does a fine job of regulating its own oil and gas industry and I think we have climate change policy in particular that we've never received much credit for which we are, in many ways, best in class.

We can discuss that, nationwide we need to work together and the Energy East pipeline is an illustration of that. It's a pipeline project that will drive prosperity across the country. The real jobs created will come from a facility such as the refinery and port in Atlantic Canada and in Ontario where many of the components will be fabricated, so the benefits are shared across the country.

Policy: Two questions on the environment, one is on Alberta's record and perhaps you don't receive enough credit, and Alberta needs to do a better job of telling its story, as you said in Washington early in February.

The story of averted emissions, \$500 million in the clean tech fund, the tax on large emitters, the Canadian Oil Sands Innovation Alliance and shared R&D across the oil sands, more than \$1 billion committed to carbon capture and storage.

Jim Prentice: An illustration of that is when I was in Washington and one of

the people I met said, “The president of the United States is now talking about the importance of policy changes for the venting and flaring of methane. Is Canada going to be able to keep pace?”

I said, “For heaven sakes the World Bank based its global initiative around best practices on venting and flaring and methane on Alberta’s regime”. We have among the very tightest regimes in the world in that area and are regarded as best in class, but again, no one appreciated just how far-sighted some of the environmental policies we’ve had are.

Policy: Let me ask you one overarching question on climate change. You were the Environment minister at Copenhagen in 2009 and as you’ve said, you have the scars to show for it. President Obama and China have agreed on asymmetrical goals on GHG emissions by 2030. The Americans would reduce their emissions by 26-28 per cent below 2005 levels and the Chinese would have a free ride until 2030 and then they would start to reduce them. It’s an interesting concept of partnership. How achievable is that when it’s not clear we’re going to make our Copenhagen

targets of 17 per cent below 2005 levels by 2020?

Jim Prentice: You’re speaking of our targets, the Chinese targets or American targets?

Policy: Mr. Obama’s target, is this going to be the conversation in Paris?

Jim Prentice: The conversation in Paris will focus on common but differentiated responsibilities, which is to say that everyone needs to do their share. But everyone has a different economy; even Canada and the United States have very different economies. The US will have an easier time making their Copenhagen target because they have more low hanging fruit in terms of areas where they can reduce their emissions. In our case as Canadians, a lot of our capital infrastructure is much newer, so it becomes harder to achieve that same target. And China is vastly different yet again, and so the policy framework in any international treaty has to respect that different economies have different assets, and different opportunities, and different challenges.

It’s certainly true of Alberta, which has

an emission profile that’s certainly different than other provinces in Canada and certainly different than the United States. Having said that, we are making very significant intensity reductions in terms of the energy industry and we’re doing things that no one else in the world has done, such as phasing out our coal burning plants, and investments in CCS.

Policy: Final question, you’ve bought yourself this 1956 white Thunderbird convertible. Was this something on your bucket list?

Jim Prentice: Probably like most guys from Alberta I love cars, I’ve always loved cars.

Policy: Cars and hockey, you said.

Jim Prentice: Cars and hockey. I had been looking for a T-Bird for about 10 years, I enjoy going to the Barrett-Jackson auction in Arizona. It was a bit of a family event in that I was there with my son-in-law and we were specifically looking for a T-Bird. I didn’t go there saying I must buy one, but exactly what I had been looking for came up, so I bought it. **P**

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