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Government and Regulatory Affairs

## In this edition

Economic Update

Alberta Oilsands –  
Opportunity or Squeezed  
too hard?

## Upcoming Articles

New Campaign Financing  
Rules – How do they affect  
you?

Strategic Voting

Where are the leaders ?



Surprise Harper  
Economic Update  
sounds like 2005 all over  
again

## Economic Update 2007

Finance Minister Jim Flaherty delivered a surprise economic update in Ottawa yesterday. The statement focused mainly on tax cuts, both personal and corporate, but did not deliver any new real tax savings beyond what Canadians already had in 2005 before the Conservative government won a minority. Save for a reduction in GST from 6 % to 5% effective January 1, 2008 there were few if any real reductions in the tax burden.

A reduction in GST only really benefits Canadians with a large disposable income and does not assist the majority of Canadian working families. For working families it means savings of approximately \$13.00 per month – the cost of a medium pizza.

The Corporate Tax rate (CTR) is set to reduce 1% per year until 2012 – moving the CTR from 22% to 15%. This has a longer term

potential to encourage new resource development opportunities across the country but at the same time could leave communities scrambling for infrastructure upgrades. The communities in Canada need infrastructure upgrades and funding for these projects come out of the tax base.

The Federal personal tax exemption will move from 8,962 to 9,600 retroactive to January 1, 2007. Essentially, this means the after tax remainder of \$600.00 stays in our pockets. The final budgetary surplus for 2007 is expected to be \$13.8 billion and is projected to be \$12 billion next year even before the cuts.

According to the Ministry of Finance, program spending will decrease \$1.4 billion this year and continue to decrease in 2008.

Early indicators suggest The New Democratic Party and the Bloc will vote against the Economic Update

while the Liberals will continue to enable the Conservative agenda by passively supporting motions in the House of Commons by abstaining.

While the corporate tax cuts will stimulate economic activity in the future and have some trickle down effects to our trades it is unclear what policy direction this government is taking.

Tax cuts at anytime by any government are popular – the question becomes are these changes what is best for Canada and are these popular cuts a prelude to change that won't be so popular? Will there be real progress beyond what we already had in 2005?

Stay Tuned.

For the full report issued by the Ministry of Finance visit:

<http://www.fin.gc.ca/ec20>

# The Alberta Royalty Regime – Opportunity or Squeezed too hard?

Premier Stelmach announced on October 25, 2007 a new royalty framework for the Province of Alberta which comes into effect January 1, 2009.

The highly anticipated decision came after a Panel of Albertans made recommendations to the Premier in a report delivered in early September. The regime is a bundle of laws and regulations that set out how taxes are collected by the government in the natural resources extraction sector. This industry is a key component to Building Trades members in Canada for both construction and maintenance.

In summary, Premier Stelmach has outlined three major changes to the existing Royalty framework with respect to the Oilsands:

- 1. Alberta will be collecting more money from Oil Companies in the form of royalties**
- 2. The Government will not be grandfathering any existing agreements it has with owner/clients**
- 3. The Government will determine how to value raw bitumen to enable upgrading and refining outside Alberta by June 2008.**

Each of these changes could have a significant impact on our trades. Cost structure models for large refinery and oilsands extraction operations will enlarge. This has the potential to cool both future new construction and expansion of existing facilities. Our owner/client partners will face the prospect of lower profit margins and thus the potential for reduction in Building Trades job hours in the future.

Existing crown lease agreements with Suncor and Syncrude are in limbo. Both of these firms had respective royalty deals which provided cost stability until 2016. This will prove to be problematic for our industry and our partners. It is worthy of note the arrangements between these companies and the Alberta Government is a legal contract. It will be interesting to see how the "negotiations" go forward.

Finally, the Alberta government has mandated a valuation formula be developed in anticipation of raw bitumen being sold on the open market. By its very inference, the formula means extraction with no refining or value added in Alberta or other regions of Canada. This means job hours go to lower cost jurisdictions in the United States or overseas.

It is clear that a vast majority of Albertans support these changes and feel that oil companies are getting a "free ride". These Albertans want oil money to translate into infrastructure, health and education opportunities.

The Building Trades need to be sure that short term political gain for Stelmach's Provincial government is not being traded for a long term slowing of economic growth in Alberta and Canada beyond. While resource owners are indeed Albertans, industry owners and clients are also Albertans.

Stability, balance and predictability in the Oilsands will ensure future opportunities for all Canadians.

We encourage you to provide your feedback to the Government of Alberta at [www.alberta.ca](http://www.alberta.ca) or your Member of Parliament in Ottawa. If you are an Alberta resident contact your MLA in Edmonton.

FOR MORE INFORMATION/THE COMPLETE REPORT :

[www.energy.gov.ab.ca/About\\_Us/1293.asp](http://www.energy.gov.ab.ca/About_Us/1293.asp)