Developing Alberta's Oil Sands: Is there a "Closer to Home" Perspective?

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Abstract

The literature on the provincial Norths often laments about the lack of authority and autonomy residents have to determine the level, type, and pace of the natural resource development occurring in their areas (Wilson and Poelzer, 2005). The assertion is that with a diverse range of governance tools, the provincial Norths would have enjoyed greater success with their economic diversification strategies. However, this perspective often assumes that governments closer to home (e.g., municipal governments) would enact a different vision of development. The recent province-wide debates on Alberta's oil sands development allow us to test this assumption. Located entirely within Alberta's provincial North, the oil sands contains the world's second largest oil reserves. Throughout 2006 to 2007, oil sands development was the subject of two broad based public consultations – *Oil Sands Consultations – Multistakeholder Committee* and the *Royalty Review Panel*. In addition to these public consultations, the government also commissioned a team, led by Doug Radke to examine "gaps" in government services as a result of explosive oil sands development. This team released their report, commonly referred to as the *Radke Report*, months before the release of the final reports from the public consultations. In their submissions, the Regional Municipality of Wood Buffalo (RMWB) advanced a distinctive local argument, which employed a "citizenship" rationale. The key of this argument is the belief that residents of the RMWB are entitled to a similar quality of life as other Albertans. However, the unique stresses placed on the RMWB, by being the host community for an industrial project of an unprecedented scale, make this impossible. Therefore, both the provincial government and industry must not only acknowledge these stresses, but also compensate the municipality for them. This paper explores the basis upon which the RMWB formed this argument and the degree to which the panels and the *Radke Report* accepted it. It also places the municipality's argument within the context of the literature on resource-based communities and the provincial Norths.

"We hope the difficult we can fix right away, while the impossible will take a little more time"

- Vance MacNichol, Chair MSC, Calgary Provincial Submit (MSC, 2007: 28)

Introduction

The scope and scale of development of Alberta's oil sands is astronomical. It is difficult to paint a picture of how massive oil sands development has become, impacting not only the province but also the country. The following facts help make it clear. With the oil sands' 174 billion barrels of recoverable oil, Canada's oil reserves are second to Saudi Arabia. In 2006, oil sands produced 1.2 million barrels a day, accounting for 42 percent of Canada's total crude output (Alberta Energy, 2008). Production could rise to 4.4 million barrels a day by 2015 (MacWilliam, 2007: 3). To make this a reality, new and expansions to existing facilities will receive an estimated $107.5 billion USD in capital investment between 2006 and 2015 (Ibid). Therefore, it is not hyperbole to say that the development of Alberta's oil sands is one of the largest industrial projects occurring in the world. In turn, this development produces not only difficult challenges but also ones that may be impossible to solve. Challenges include the amount of clean energy used to extract the oil from the surrounding material – 14 cubic meters for surface mining, twice as much for the in-situ process (Canadian Centre for Energy Information, 2006). Oil sands production also uses two to four barrels of water per barrel of oil – some of which is permanently removed from the water cycle (Urquhart, 2004). Producers "move enough overburden [e.g., boreal forest, muskeg] and oil sands every two days to fill Toronto's Skydome" (Alberta Energy, 2008). Challenges also include providing basic services to a rapid rising population in the host community that grew from 42,000 in 1999 to just over 89,000 in 2007 (RMWB, 2007[b])[1]. The population "may reach over 110,000 in the early years of the next decade" (Alberta Employment, Immigration, and Industry, 2007: 32).

The epicentre of these challenges is the Regional Municipality of Wood Buffalo (RMWB) where the majority of oil sands expansion has occurred. Like other resource-based communities in the provincial Norths, the RMWB has very limited means of controlling the pace, scale, and impacts of oil sands development. This control largely rests with the Province of Alberta, which owns the resource and controls the scope of local governments' jurisdiction. As owners of natural resources found within their jurisdictions, provincial governments have used these sources of wealth as a means to pursue province building, and in particular the development of larger urban centres and their populations (Summerville and Poelzer, 2005). As such, Summerville and Poelzer argue that "the idea of internal colonialism is particularly relevant" (210). Provincial Norths' scholars have consistently argued that this relationship has produced limited development and economic dependency (e.g., Wilson and Poelzer 2005; Coates and Morrison, 1992; Weller, 1989). In addition, provincial governments can negatively affect these communities when they implement one-size policies designed with dense urban populations in mind (McAllister, 2004: 135). As a remedy, scholars and officials have argued for new governance structures to enhance "their economic and political independence from the more senior levels of government"

[1] The RMWB is a unique municipality in that it contains multiple communities and is over 68,000 km^2. See Appendix A for a breakdown between communities.

(McAllister, 2004: 134). To be heard more strongly in the provincial capital, some have called for the development of dedicated ministries (e.g., Ramsey 2005; Weller 1994). Others seek to expand regional capacity by implementing regional governance structures (e.g., Urquhart 2005; Garcea 2005). Lastly, most perceive that one of the largest obstacles for asserting an empowered provincial North is the lack of ongoing cooperation between communities (e.g., Wilson and Poelzer, 2005; Coates 1993/1994). Implicit behind the recommendations calling for greater local control is the idea that resource-based communities would make different decisions about the course of their development, while other ideas, such as Summerville and Poelzer's (2005) argument that northern and remote communities are distinct from the larger provincial communities, are more explicit.

This paper seeks to test this assumption by examining the arguments advanced by the RMWB in two broad-based public consultations – one that focused exclusively on the future of oil sands development while the other examined the provincial energy royalty regime, including royalties levied against oil sands producers. Due to the length of this paper, I do not consider the arguments advanced by the five Treaty 8 First Nations[2] and area Métis who are the First Nations most affected by the development. There are two primary reasons for this. First, although they sometimes reach similar recommendations as the municipality, the root of their argument begins at a fundamentally different starting point - their enduring treaty rights. Second, the volume and depth of the material is too large to be included as twenty-seven First Nations' organizations or communities participated in a separate but parallel process to the Oil Sands Consultation- Multistakeholder Committee. Their perspectives are contained in a separate final report and their individual submissions.

This paper begins by exploring the conditions leading to recent explosion of growth. It then examines the factors that led to the creation of the two public consultations occurring in 2006 and 2007. The bulk of the paper considers the four primary parts of the RMWB's argument before both processes. Residents of RMWB are entitled to similar level of services as other Albertans. The unique nature of the oil sands development has made it impossible to provide these services under the current conditions. As such, the municipality needs new relationships with both the provincial government and industry. Each section examines to what degree the panels and the *Radke Report* support these claims. Lastly, while RMWB puts forth a "closer to home" argument it is not as visionary or different from the current course of development as recommendations that are advanced in the literature on the provincial Norths.

The Provincial North's El Dorado

In their seminal work on the provincial Norths, Ken Coates and William Morrison (1992) identified Fort McMurray as having the potential to be "the provincial Norths' El Dorado of the twenty-first century" (98). However, unlike the gold rushes of the past, the difficulty was not in locating the resource as oil sands potential was perceived as early as the 1890s. The difficulty lay in discovering the means of separating the bitumen from the surrounding

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[2] These are Athabasca Chipewyan First Nation, the Chipewyan Prairie First Nation, the Fort McKay First Nation, Fort McMurray No. 468, and the Mikisew Cree First Nation.

material[3] (Chastko, 2004: 3). In the sixteen years since Coates and Morrison's 1992 proclamation, Fort McMurray has certainly become an "El Dorado" as both people and capital flock in search of their fortune. There are a few reasons why this explosive growth has occurred. Oil sands producers have successfully reduced their costs to less than $13 per barrel by the mid 1990s whereas early commercial plants faced the "astronomical" costs of $35 per barrel (Urquhart, 2004: 8). In the early 1990s, oil hovered at $20 per barrel; it recently has hit record highs of over $120 per barrel. Rising oil prices have fuelled new developments and many headlines, but it is important to remember that the price has only risen past the $40 mark in the last three years (Langford, 2007:38). Perhaps one of most important factors was the introduction of a favourable royalty and tax regime from both the provincial and federal governments. In 1997, the province introduced a generic royalty regime where it only collected 1% royalty on gross revenues until the developer has recuperated all project costs, including a return allowance. After payout, the royalty jumped to 25% of net revenues.[4] The primary purpose of this royalty regime was to spur development. The federal government supported the oil sands industry through a favourable tax system – a tax expenditure of $583 million from 1996 to 2002 (Pigeon, 2003). These factors helped industry reach their ambitious goal of 1.1 million barrels per day in 2004, not 2020 as predicted.

The Birth of the Public Consultations

Oil Sands Consultation Multistakeholder Committee was born out of the Government of Alberta's failed attempt to launch the Mineable Oil Sands Strategy (MOSS) in October 2005. Ian Urquhart calls this document "the most honest, yet chilling, government document on the tar sands" (2008: 23). If it had been implemented, MOSS would have designated oil sands development as the "highest priority" over all other uses throughout a 2,900 km^2 area. Wildlife protection would not occur during the life of a mine and there were no illusions that the landscape could be reclaimed to its pre-development state. The Government's plans to seek feedback on MOSS were limited to one open house in Fort McMurray and a few workshops. As such, it was not surprising that many Albertans and non-governmental organizations reacted negatively both to MOSS' content and the proposed consultation plan. What Urquhart, and others, found surprising is that government abandoned MOSS. Just when the only open house was supposed to have occurred in January 2006, the Klein Government appointed a MLA-led Oil Sands Consultation group to recommend a new consultative process. Prior to accepting the MLA group's recommendations in May 2006 to establish the Oil Sands Multistakeholder committee (MSC), Klein had received a disappointing leadership review and had announced his decision to retire at the end of the year. Thus, it was in this context of transition away from the Klein era that the MSC was born. In the end, this committee produced a final report which contained 96 consensus

[3] The Athabasca oil sands are primarily located at depths (250 feet from surface) where surface mining is used. Industry extracts deeper deposits using an in-situ process, which involves separating the bitumen from the sand underground by injecting steam. For a full description of both processes, see the pamphlet, Canada's Oil Sands produced by the Canadian Centre for Energy Information (2006).

[4] For more detail about the generic royalty regime, visit the Alberta royalty review panel at www.royaltyreview.ca/more_info/background.pdf. It is important to note that Suncor and Syncrude, who now account for 49% of all bitumen production, did not fall under the generic royalty regime and were still subjected to their individual royalty agreements (Alberta Royalty Review Panel, 2007: 82).

recommendations on a broad range of topics from socio-economic to governance issues (Urquhart, 2008). The most controversial recommendations centred on increasing the environmental monitoring and regulation of oil sands facilities. Of the 24 non-consensus action items, 15 of them concerned environmental issues. Consensus broke down when it came to designing strategies to actually implement "motherhood" concepts like "cumulative impact assessment" (Urquhart, 2008: 24).

In September 2006, Ralph Klein made one of his famous off the cuff remarks when he announced that the government had no "plan" to deal with effects of this explosive growth. He also indicated that this level of growth could never have been anticipated. Despite the fact that the MSC was already examining the issue, the Oil Sands Ministerial committee, a cabinet committee, appointed a four-person team (led by Doug Radke, a former deputy environment minister) to examine the gaps in government services due to growth pressures relating to oil sands development. Months before the MSC was to release their report, this team published their final report, entitled *Investing in our Future: Responding to the Rapid Growth of Oil Sands Development*. Commonly referred to as the *Radke Report*, it contained 30 recommendations dealing with issues ranging from childcare to twinning of Highway 63. Perhaps most importantly, it argued that the current situation in RMWB was unique and that the province should treat it differently than other municipalities. Accepting this principle, Stelmach implemented the recommendation to create an Oil Sands Secretariat to coordinate government initiatives and engage in overall planning to manage the impacts of rapid development on the RMWB and its environs[5]. In doing so, he reversed a long-standing Klein-era doctrine that refused to recognize the RMWB as unique (Pratt, 2007). In addition, Stelmach immediately committed $320 million followed by another $420 million this year to address capital and operational gaps identified in the *Radke Report*[6]. As the governing party of Alberta since 1971, new conservative leaders tend not to run against the performance or ideas of oppositional parties but seek to reinvent themselves against the previous leader (Smith, 2001). Stelmach needed to establish a new image especially after Klein's highly criticized admission of not having a plan. His response to the *Radke Report* and his creation of the Royalty Review Panel (RRP) should be seen in this light.

Royalties became an issue in the Conservative leadership race for a number of reasons and led to the birth of the RRP. First, with oil prices rising, Albertans increasingly believed they were not receiving their fair share especially when it came to oil sands. The generic royalty regime was established when oil prices hovered around $20 dollars a barrel and was not designed to adjust to rising prices. Adding to this feeling that Albertans were not getting their fair share was the fact that many Albertans were suffering the negative effects of the boom (e.g., inflation) without perceiving any direct financial benefits. Second, during the campaign, both BP and Encana/ConcoPhillips announced that they would be building upgraders in the US to process Alberta's bitumen. Public outcry centered on the facts that this would be exporting value-added jobs (Pratt, 2006). Instead of condemning these

[5] The Secretariat anticipates the release of their strategic plan in the Fall 2008. In drafting this plan, it will review and consider recommendations resulting from the MSC Final report, the *Aboriginal Consultation Final Report*, and the *Radke Report*.

[6] For a detailed breakdown of where the funds will be spent, please refer to Radke (2007) and Alberta Finance, (2008: 99). Notable expenditures include: $250.4 million to address health care pressures, $103 million to upgrade the water treatment and wastewater facilities, $300 million for Highway 63 interchanges and $28.1 million for increase planning capacity at the provincial and municipal levels.

announcements, Stelmach indicated that his "focus is on the next 30, 40, 50 years of mining bitumen and how we can add value to that" (Markusoff, 2006:A3). Third, in his annual report released in October 2006, the auditor general indicated that the government might be losing millions in royalties because of inadequate monitoring (Thomson, 2006: A16). Lastly, many perceived that Klein had been too cozy with big oil. As a leadership hopeful, Premier Stelmach promised a full-scale review of all energy royalties. In February 2007, the new Premier fulfilled his promise by establishing the RRP. However, this effectively removed the question of oil sands royalties from the broader based MSC. The panel recommended changing the post payout royalty from 25 to 33% and that both Suncor and Syncrude should not be grandfathered (RRP, 2007: 12-14). Stelmach instead decided to implement a floating rate based on the world oil price (Alberta Energy, 2007). If the price is $55 dollars or below the company would still only pay $25% of net revenue. However, they could pay as high as 40% when the price is over $120 a barrel. The province decided not to tie royalties to the export of raw bitumen.

Closer to Home?

In July 2006, the mayor of RMWB intervened at the Energy Utilities Board's hearings on the Suncor Voyager Plant. At this time, Melissa Blake asked the board to consider the detrimental effects the explosive development was having on the quality of life within the municipality (RMWB, 2006[b]:14). Although the municipality was not specifically against Suncor's application, it called on the board to "slow the pace of oil sands development" (Ibid). Many took this as a new and almost unheard of sign from a resource-based community. Instead of welcoming all new industrial development, the municipality launched a more aggressive campaign. The sections below examine the beliefs that were at the root of the RMWB's presentations to the MSC and to the RRP.

1. The residents of RMWB deserve a **similar** quality of life as other Albertans.
2. The rapid oil sands development has created **unique** challenges for the RMWB, which are not faced by other communities.

As a result, RMWB argues that it is unable to provide its residents with the standard of public services at comparable levels of taxation, which Albertans residing in other municipalities receive. Out of the above two beliefs comes the following two demands:

3. To provide a similar level of service, the province needs to treat RMWB differently than it treats other municipalities.
4. Since the unique challenges are result of rapid unprecedented industrial growth, oil sands developers need to share in the responsibility of providing services.

To those familiar with the oil sands and its impacts on the RMWB, especially on the community of Fort McMurray, the above beliefs and demands may appear to be commonsensical. However, they are by no means universally accepted. As such, this paper will discuss the rationale behind each and their implications to the broader oil sands policy issue.

Argument 1: Entitlement

"We believe that our citizens are entitled to the same level and quality of service that every other Albertan experiences"
- Bill Newell, Regional Manager, RMWB (MSC, 2006: 88)

At the root of this statement is the belief that citizenship, in this case in the provincial state, should guarantee a certain level of service regardless where in the province one may live. In their submissions to the MSC and the RRP, the RMWB extends this argument further by arguing that they should be able to provide comparable levels of services at comparable levels of taxation as other Albertan municipalities.[7] This is very similar to the "citizenship" rationale used to support the federal equalization program (Black and Silver, 2004: 6). In response to questioning by a panel member, Mr. Newell rejects the idea that the equalization model between the provinces and Canada is the "right terminology" (MSC, 2006: 102). Likely this is because it involves the additional transfer of federal funds to "have not" provinces; whereas, the RMWB believes there is a shortage of funds remaining in the community. Nonetheless, I believe both are making a citizenship argument when requesting additional funds above normal per-capita spending patterns. This type of argument goes beyond a basic equality argument by considering the ability of citizens to exercise those rights. One important limitation to this argument is that once the municipality is able to provide a similar level of services at similar level of taxation, their claim to extra provincial revenues ends.

This represents a fundamental shift in thinking about resource-based communities. A limited range of services was once thought to be a key characteristic of resource-based communities due to their small size and remote location (Way, 2005). During the first boom, residents expressed dissatisfaction with the range of services available as many felt mislead by the glossy advertising (Matthiasson, 1971). Despite its larger size[8], the residents of the RMWB are still confronted on a daily basis with a limited range of services. For example, there is only one police officer for 622 people in 2005 compared to the Canadian average of one for 529 people (RMWB, 2007:10). What is perhaps more important than the actual level of services provided is whether the level of services matches residents' expectations. Often, new residents, especially those from urban centres, are responsible for pushing for new urban services (Whitson, 2001). However, the municipality is quite clear in its presentation that it is advocating for the needs of long-term residents (RMWB, 2007:2). Thus, their argument is more characteristic of a new assertive stance by northern communities, which challenges their provincial southern attitudes (McAllister, 2004). For example, in the late 1980s, the argument by the proponents to build a freestanding university in northern British Columbia also advanced the argument that their citizens were entitled to similar opportunities as their southern counterparts. Only after receiving broad-based public

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[7]In their submission to both panels, the municipality presents a detailed argument in how they have and will continue to exceed debt-financing levels, even after the province raised their limit to 2.0 times their total revenue. Without special provincial grants, the municipality perceives their options as (1) major financial stress or possible financial failure or (2) raising their tax rates, on non-residential property classification. The second option, they believe would unfairly punish non-oil sands operators (see RMWB, 2007:8 and RMWB, 2006:15).

[8] Previously, the literature defined a resource-based community as having a population of under 30,000 (Bowles, 1992; Lucas 1971). The RMWB does not meet this criterion and has not for over two decades. According to the 1991 census, the community's population was just over 37,000.

(including the support of all local and regional governments, including First Nations) and private support were they successful. The lesson for the RMWB is likely that only through combining forces with other public and private actors, and galvanizing public opinion, are they likely to be successful. However, RMWB has an additional challenge as it tries to build support for its goal of improving services as many current and future citizens can choose not to live and become invested in the community due to the rise of fly-in/fly out options and those who commute from their primary residences in other communities (RMWB, 2007:3)

The MSC appears to have accepted this principle in three of their vision statements: "provides a high quality of life; builds healthy communities, and provides a high quality of infrastructure and services for all Albertans" (MSC, 2007: 13). They further expand this vision in the following principle statement:

> Development of oil sands includes planning and implementation for orderly infrastructure development, including timely funding and services for communities that are now, and will be most impacted by oil sands development, including First Nations and Métis (14).

I will address the question as whether they support additional or special funding mechanisms to a discussion contained in Argument 3. The RRP refused to engage in this type of argument. While the *Radke Report* built its argument for increased services to the RMWB on the basis that it would be a sound investment.

Argument 2: Unique Nature of RMWB

Throughout their submissions, the RMWB uses the word "unique" to describe the growth pressures, especially physical and social challenges, placed on their community by the rapid recent growth of the oil sands. One of the most unique physical challenges is that the majority of the land within the municipality is owned by the province. As such, the municipality must wait until the province decides to release some of it for sale. This has created a housing shortage and driven up housing prices. A lack of housing has made it more difficult to recruit and retain residents. The rapid growth rate has placed significant stresses on all municipal services and infrastructure.

The boom and bust cycle is often one of the first characteristics associated with the resource-based communities (Way, 2005). With fabrication plants in Edmonton and head offices in Calgary, the oil sands boom is occurring throughout the province. However, if all of Alberta is booming, then RMWB's needs must be defined as going beyond "the boom":

> When we go to (the Government of) Alberta and we explain those problems to them, when we say to them if this was normal community growth of 1 to 3 percent a year, we could handle that. *If it was a boom town community* [my emphasis] where there was a growth of 6 percent for a very short duration, we could probably handle that. What we say to you where this a community where there is a trend line of 9 percent growth over the last 7 years where all of our planning was based on a community about 75,000 over the long-term, we can't handle that (MSC, 2006: 92).

Yet, according to Mr. Newell, the province continually rejects the argument that the RMWB is facing a unique situation and therefore needs differing treatment:

> Every time we meet with the Minister of Municipal Affairs, he reiterates that they are going to treat us the same as every other municipality in the province, so we have to assume that [is] the provincial point of view (MSC, 2006: 101).

Newell's interpretation of the provincial position was an accurate account (Pratt, 2007). The *Radke Report* presents a strong argument as to why RMWB, but more particularly Fort McMurray, is unique. To support this claim the report draws upon the following reasons:

- Little capacity within the region to absorb growth
- Extreme population growth over a sustained period
- Massive scale of industrial development
- Small community and infrastructure base
- Province of Alberta holds land surrounding the community
- Timing of revenue (2007:124-125).

The Fort McMurray region is the only area that it recognizes as unique denying this label to Peace River and Cold Lake areas. As such, it appears that the provincial position is changing as the new premier accepted the recommendation to create an Oil Sands Secretariat and dedicated some special funding including addressing the municipality needs for a new wastewater treatment plant. It is not surprising that various participants at the Community Summit, held in March 2007, spoke favourably of the *Radke Report*. While many were optimistic that this represented a change in the provincial position, they wanted more action particularly in changes to operational funding.

Perhaps what is more surprising is that the MSC's final report denies applying the "unique" label to the RMWB. The closest it comes to it is by identifying that some quality of life indicators "may be unique to oil sands regions" therefore includes both Peace River and Cold Lake areas (2007:17). However, the MSC has recognized that oil sands areas are the epicentre of development in many of their specific action items. For example, although Vision 8, "Provides high quality infrastructure and services are available to all Albertans", three of their 5 action items specifically target oil sands areas. For example, it calls for targeted additional housing assistance programs for those on fixed incomes in the oil sands areas (MSC, 2007: 29).

Again, while the Royalty Panel heard concerns from citizens about "the environment, the pace of development and 'value added jobs'," and municipalities' desires for stable funding, they refused to consider these items as part of their mandate (2007:37). As such, they made no determination as to whether or not the oil sands areas are unique. As noted, in the section below, most of these concerns they determined were "short-term" and therefore should not be included in designing a royalty regime.

An important downside to the RMWB use of the "unique" argument is that it may cause resentment among other northern municipalities. This can prevent joint action on future endeavours allowing the provincial government and industry to play one community off of another. This pattern has dominated the history of development within the provincial Norths. Most scholars feel that it has been detrimental to the long-term strength of the region (e.g., Coates and Morrison, 1992).

Argument 3: Special Funding

> Dedicate a predicable, annual, portion of royalty revenues from oil sands projects to the RMWB and other municipalities where the development occurs and which are most directly affected by the development to help finance infrastructure required by new growth (RMWB, 2007:16-17).

Municipalities across Canada are looking for a "new deal" with the provincial and federal governments as they attempt to cope with infrastructure deficits and new responsibilities on their limited property tax base. However, resource-based communities often express an additional concern. Resource revenues are a critical component of many provincial governments' budgets. Although, resource-based communities provide some of the necessary infrastructure which facilitates this development; their economic return is "generally marginal compared to their provincial counterparts" (UBCM, 2004: 2). For example, "the northern (British Columbian) economy contributed 1 ½ times more in provincial revenue than what it received in provincial government expenditures" (Ibid).[9] As a result of this imbalance and the fact these communities suffer from the negative consequences of the boom and bust cycle, many communities feel they do not receive their fair share. This has led to calls from these communities that they are entitled to a proportion of resource rent. The next sections will consider how likely the RMWB will be in achieving their goal of receiving a dedicated proportion of oil sands royalty revenue.

First, there is precedent within North America of resource-based regions receiving a percentage of the royalties generated. Provincial North scholars have turned to the northern areas of certain states, like Minnesota, for comparison because they are "considered northern in their respective jurisdictions and have characteristics[10] similar to those of the provincial North in Canada" (Weller, 1989: 3). Northeastern Minnesota has received a portion of resource rents paid by the taconite industry to state government since 1941 when it became clear that high-grade iron ore was about to run out. Funds of this dedicated levy are targeted three ways (1) reducing homeowners' property taxes, (2) funding local governments (including school boards, counties), and (3) funding the Iron Range Resources (IRR) Agency.[11] The IRR is perhaps the most innovative aspect of this agreement. Not only does the Agency fund capital investments and research and development in the iron mine industry, it actively supports regional economic diversification and community development activities (IRR, 2006). IRR is managed by "quasi-governmental" board, which has allowed it to remain above "ideological debates" by acting as a permanent buffer (Muirhead et al, 1992:

[9] However, if a per-capita funding model is used then they received the appropriate amount based on the portion of the total population.
[10] Similar characteristics include their dependence on resource industries and small populations.
[11] The funds are distributed according to Minnesota Statue 298.28. For description of the agency see 298.22.

25). The agency has shown its willingness not only to support private enterprises but also to own and manage areas which the private sector is unwilling or unable to pursue.[12] Unlike the explosive boom currently occurring in the RMWB, this fund was created when the resource-based region was facing a potentially catastrophic economic crisis that could have had wider implications for the whole state. Northeastern Minnesota serves as example of what can be possible.

A closer example to RMWB situation is the *Fair Share Agreement* between the Government of BC and the Peace River area (UBCM, 2004: 3-4). This is a limited agreement and is up for renewal in 2007/08. This MOU establishes an important precedent. It specifically recognizes that industrial growth, in this case of the oil and gas sector, has placed additional burdens on the local governments which serve as host communities and that additional resources are needed. However, it does not tie the additional funds received by local communities either directly or indirectly with the revenue generated from the region. The Government of BC has resisted calls to extend this type of agreement to other regions or other industrial sectors.[13] There is an important difference between the Peace River region and the RMWB. Peace River municipalities have a limited means of taxing oil and gas facilities as much of these installations occur outside local governments' boundaries. However, since amalgamation, all Athabasca oil sands facilities are included in the RMWB boundaries and therefore are subjected to municipal property tax[14].

The above examples demonstrate that other jurisdictions have accepted the principle that communities serving resource industries need additional financial arrangements above normal per capita spending to manage the effects of industrial growth (Peace River Region) or slowdown and/or potential collapse (northeastern Minnesota) by creating special funds. This section examines how the RMWB request for a dedicated proportion of oil sands royalties was received by both panels. Prior to the release of both panel reports, the *Radke Report* identified the availability of revenue sources for municipalities as an outstanding policy issue. To address this issue, one suggestion to supplement municipal revenues included:

> Dedicating a certain portion of lease and royalty payments received from oil sands projects to the municipality where development occurs to finance the infrastructure required by new growth. There is some support for this idea from some of the operators in certain areas. This may be a reasonable suggestion in those areas where the industry is reasonably mature; it might not work so well where there are long periods of time between when the infrastructure is required and when the plants actually start to pay royalties (2006: 148)

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[12] For example, not only does it market and advertise the region's tourism initiatives. It also owns and manages the Giants Ridge Golf and Ski resort, which it brought from a failed developer. It also paid to have 273 substandard housing demolished (IRR, 2000).

[13] BC Chamber of Commerce recognized this "fiscal imbalance" in their 2001-2002 policy manual. The UBCM have supported specific recommendation to share some form of resource revenues with local governments in 2003, 2002, and 1998 (UBCM, 2004:1)

[14] In their submission to RRP, the RMWB noted that the provincial regulation has placed restrictions on how the Machinery and Equipment tax class is taxed. First, they are subjected to 25% immediate depreciation and then they are taxed at only 77% of this new assessment level whereas the residential and non-residential tax classes are taxed at 100% market value (RMWB, 2007: 9).

Although not a prominent recommendation, the Radke report raises the idea that host municipalities may be entitled to a portion of royalties. The only organization which has appeared to have heard this suggestion was the RMWB which changed their recommendation from a request for a special provincial grant in their presentation to the MSC panel members to a direct request for a portion of royalties in their submission to the RRP. As the sections below detail, this suggestion failed to ignite either panel.

The RRP rejected any notion that royalties should be tied either directly or indirectly to municipal issues:

> The Panel takes the view that the royalty and tax framework of the energy sector is not an appropriate mechanism to alleviate pressures on municipal infrastructure or industry costs or other such short-term phenomena (RRP, 2007: 38).

This statement is revealing in that it views local government concerns as being short-term.[15] This ignores the reality that resource-based communities' long-term health is tied to the health of industry – and therefore, their long-term concerns. The panel view was not unexpected as the panel framed its question as whether Albertans as the owners of the resources are getting a fair share. It conceives that royalties are a "bargain" between industry and the provincial government.

The MSC panel also does not recommend that a portion of royalties be set aside for development of the oil sands areas. Despite this, a few of their recommendations call on the provincial government to revise their funding mechanisms to increase support to the oil sands areas. For example, they argued that the shadow population should be counted in the Regional Health authority funding formula (MSC, 2007:25). Two other action items were recommendations for the province to provide front-end funding that would ensure the necessary community, education, and infrastructure projects are built to accommodate the anticipated demand from approved projects (Ibid).

Provincial governments have been extremely resistant in sharing this important revenue stream. This makes it unlikely that RMWB will be successful in achieving their goal of receiving a dedicated proportion of oil sands royalty revenue.

Argument 4: Rewriting the social contract with Industry

When confronted with the lack of services to support a burgeoning population, oil sands industry commonly limited their responsibility to those of a good corporate citizen and opposed calls to add extra responsibilities to the development of leases. They resisted calls to rewrite (or return to) a social contract where industry played a larger role in ensuring the overall quality of life for their workers. For example, Syncrude notes that 60% of the

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[15] The Panel recognize environmental impacts as a long-term concern but failed to reach a conclusion as whether a portion of royalty revenues should be dedicated to research and the amelioration of these environmental impacts (Royalty Review Panel, 2007: 39)

RMWB total tax revenue already comes from Suncor, Albian Sands, and themselves (Syncrude, 2006: 15). While the municipality will likely have enough revenue as more projects enter the tax roll, Syncrude denies that they should bear responsibility in addressing current infrastructure deficits:

> We recognize that future tax revenues do not address the current infrastructure deficit; however, we see this important matter as an issue of public policy that is best dealt with by governments and not the private sector (Ibid).

Historically, many resource-based communities were company towns (Sullivan, 2002). The resource company built, and in some cases managed, community infrastructure including housing and other services. For example during the 1930s, the Cariboo Gold Quartz Mine in Wells, BC ran a hospital for the residents, provided housing, and built community recreational facilities. Even within Fort McMurray, oil sands companies and government agencies formerly provided housing to their employees as one long-term resident reminded the commission, "housing is a core business for families (MSC, 2006: 172). The *Radke Report* (2006) also highlights Syncrude and Suncor's past contributions. For example, it notes how Syncrude built major public infrastructure, including the neighbourhood of Thichwood Heights and the Ralph Steinhauer Bridge which spans the Athabasca River, while Suncor supplied homes and supported the development of some recreational infrastructure. (21).

While commending recent contributions to community projects by both companies, the *Radke Report* remarks that these initiatives fall far short of their contributions in the early days of oil sands development. They also note the new players have "not stepped up to the plate" (22). There are several reasons why citizens and governments have allowed industry to withdraw. In the Lucas/Bradbury model of resource-based community development, decision-making shifts from the company to local government as the population becomes more permanent (Sullivan, 2002). Citizens view this as an important and integral part of local development. It is a form of community empowerment. Companies, for the most part, are pleased that this occurs as it reduces their involvement (e.g., financial and human capital) in their non-core areas. Close ties are maintained as many civic leaders have personal ties with the industry (e.g., former or current employees; family and friends who work there). Residents have a keen appreciation of the role industry plays in the economic health of the community. Since the 1980s[16], resource companies are choosing not to engage in development of company towns (or even housing) as they now prefer to locate their employees in nearby existing towns or engage in fly-in/fly out camps. Not only does this reduce costs at the start, it also avoids the problem of having to "wind-down" a town.

In their submission to the MSC, the RMWB does not call on industry to become a direct provider again; however, they do recommend that a new relationship be struck, particularly as it relates to financing new municipal infrastructure:

[16] Perhaps the last town to built as a company town was Tumbler Ridge in 1981. Local elections were not held until 1985. At the start, the mines offered subsidized mortgages however in the early 1990s Quintette mine brought back most of the homes and the majority of the town became renters (Sullivan, 2002).

> The development of a formula that identifies industry's share of current and future infrastructure needs and allowing for a mechanism whereby each proponent of a new project would sign an Industrial Agreement with RMWB to capture its portion of existing infrastructure and an appropriate contribution towards the development costs of new or expanded infrastructure required for population growth projected as a result of each new project (RMWB, 2006: 18).

This type of agreement would be unusual. Perhaps the closest example is the impact-benefit agreements (IBAs) signed between mineral companies and First Nations. IBAs' primary purposes involve minimizing negative effects of commercial development on local communities and the environment as well as to ensure that First Nations receive some benefits (Sosa and Keena, 2001). Companies enter into these agreements to compensate for infringement of their treaty rights, as a legal regulatory requirement, and/or to garner local support. Common provisions include securing employment targets, developing business opportunities, addressing social and cultural issues, and providing financial compensation. As such, their scope is much broader then what RMWB envisions in their request. However, the RMWB would be well aware to heed some of traps that First Nations have found themselves in, as a result of signing an IBA (Sosa and Keena, 2001: 20-21). First, some First Nations have been prevented from challenging later aspects of development because of a clause ensuring their support. Second, negotiating agreements takes substantive amount of financial and human resources. Lastly, the community's bargaining power often determines the strength of an agreement; as such, this "calls into question the value of the IBA as tool for achieving public policy goals" (20). However, it is difficult to imagine that companies would enter into Industrial Agreements with the RMWB unless there was a legal regulatory requirement to do so since the municipality has no claims of ownership over the resource and is unlikely to withdraw their general support for industry. While recognizing the legitimate concerns of the municipality in the Suncor's Voyager hearing, the EUB failed to impose any conditions on Suncor and instead turn the issues back to government.

Perhaps realizing the difficulties in establishing, monitoring, and enforcing industrial agreements with each oil sands developer, the RMWB modified its position before the RRP. They asked for a portion of royalties to be directed towards the area where development had occurred. If the province needs to raise royalties in order to do this, then the RMWB supports them in this endeavour. If implemented, this would be an easier way in ensuring ongoing stable financing from industry. However, this method would ignore the other benefits that First Nations have been able to secure through IBAs. For example, the RMWB laments that it is opposed to fly-in/fly-out camps because these residents, while using local resources, are not committed to the community as their homes are elsewhere. Issues such as these could be addressed through the use of IBA.

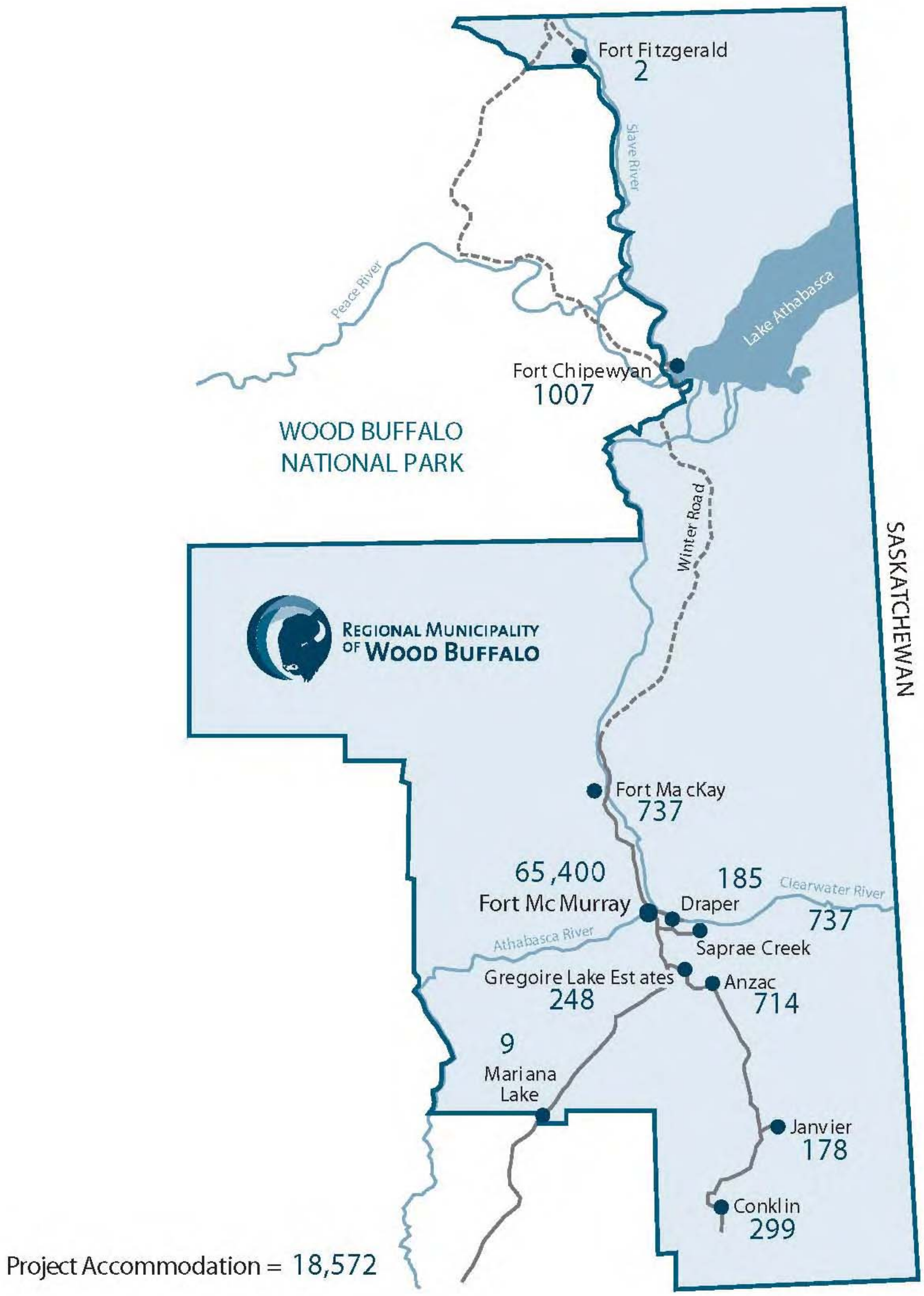
Conclusion

The RMWB has been a strong advocate for its citizens in terms of securing better social and physical infrastructure. At the EUB's hearing on Suncor's Voyager Plant, the municipality called for the province to slow the pace of development. As such, they dramatically made their voice heard. This was not a call for a moratorium on new development. In both public consultations, they advanced an argument for increase services based on the belief that as citizens of the Province of Alberta, they were entitled to similar level of services. It appears that when the necessary improvements to infrastructure and services are made, the municipality will be satisfied and development can proceed (MSC, 2007: 51). Although the Municipality has taken a more assertive position, it has not advanced a fundamentally different relationship with either the provincial government or industry. This is perhaps best seen by what was not included in their arguments. Their oral and written submissions did not advance any arguments focusing on environmental issues[17]. With the exception of wanting a portion of new royalties, they did not advance arguments in favour of new governance processes. Their arguments are based on the need for sufficient funding of infrastructure not on a broader argument that due to their close ties between the host community and the health of industry, they deserve a dedicated long-term portion of royalties. For example, the establishment of agency like Iron Range Resource is not conceived. In addition, they appeared to have abandoned a call to have companies sign an Industrial agreement with the municipality to establish company's portion of infrastructure financing as they did not advance this argument past their original submission to the MSC.

The RMWB, in conjunction with its partnerships with the Regional Industry Working Group, has made its most pressing social and physical infrastructure needs heard and understood by government and industry (Radke, 2007). Government has responded with over $740 million in new funding for services and infrastructure projects within the RMWB. This is a significant achievement. Yet, there is likely a missed opportunity for the RMWB to advance an argument in favour of a next generation of resource development.

[17] In a follow-up letter to the Community Summit, the RMWB indicated their support for vision 3, "ensure a healthy environment". However, specific recommendations only focused on a need to reduce greenhouse gas emissions and to monitor and regulate the number of hazardous materials traveling through the Fort McMurray urban service area (RMWB, 2007: 2).

Appendix A: Map: Population in the Regional Municipality of Wood Buffalo
(RMWB, 2007b: 2)



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