

Presentation at the Royalty Review Panel in Edmonton, AB on May 14, 2007.

By Lino Ramirez

Introduction

Good Afternoon everyone. First, I would like to thank the Royalty Review Panel for the opportunity to present our opinions on the review of Alberta's royalty and tax regime. Second, we all should applaud the Government of Alberta for understanding the need of revising the current royalty and tax regime to guarantee that we as Albertans are compensated adequately for the use of our non-renewable resources.

We've been very fortunate in that our Province is located in one of the largest energy reservoirs in the world: our Oil Sands. Because non-conventional oil will account for an increasing proportion of overall production in the Province, I will concentrate my observations on the royalty system for the oil sands.

The current royalty system certainly achieved its goal: increase investment in the oil sands in a time when the oil price was just \$27 per barrel and the development of our Oil Sands was in its infancy. Now that the Oil Price is over \$60 per barrel and we have a vibrant Oil Sands industry, we must revise our royalty system to guarantee that all Albertans benefit from it.

Comparison with other jurisdictions

Studies by the Parkland Institute and Pembina Institute have shown that while Alberta collects approximately 58% of available rent from the oil sands, Alaska and Norway collect 88% and 99% of rent respectively. These are just two examples. In many other countries, the rate of recovery is also very high because the exploration and production is done through national companies. It is time to increase the benefits we receive from the use of our resources. How can we achieve that? By increasing the royalties and focusing our strategy on the distribution of the benefits in three main areas: accelerating the economy diversification, increasing the stability fund, and creating an environment fund.

Increasing Royalties

Royalties levels have to be set up to strike a balance between sustainable Oil Sands development and market demand. If the royalties are set too high, the investment will decrease reducing the number of oil sands developments and consequently reducing the profits for the Province. At the same time, the impact on the environment will be reduced. If the royalties are set too low, initially the investment will increase, as we have it right now, increasing the amount of money the Province receive. On the down side, the impact on the environment is just starting to be felt and is very likely that it will get worst in detriment of the health of our future generations. Moreover, in the mid to long term, investments are likely to decrease due to increasing prices in labour and in doing business here in Alberta.

We have to increase the royalties but we have to be careful in the process. One way of reducing the impact that increasing the royalties would have in the investment levels is by providing a number of programs that offset or reduce royalties paid by oil companies. Among these programs, we could provide incentives for such things as building heavy oil upgraders in Alberta, investing in social programs, and building refineries in our Province.

Focusing our strategy on the distribution of the benefits

The other point I wanted to make was related to focusing our strategy on the distribution of the benefits. The main issues to take into account are:

Accelerating the economy diversification by creating more programs that support entrepreneurship in our Province, by increasing the investment in education, and by paying special attention to the promotion of studies in science and engineering.

Increasing the stability fund. because Oil prices eventually will go down, we have to prepare our Province for making a smooth transition in our economy.

Creating an environment fund to do research on ways to reduce the impact of Oil sands development in

our environment. I know there is some work being done in that area. But I guarantee you it is not enough.

Conclusion

To conclude, we have to increase the royalties and we have to create a novel strategy to distribute the benefits. The future is in our hands. Let's build it together. Thank you.

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