

Royalty Hearings
Statement of Concern
By the Council of Canadians
Representative Lyn Gorman

We would like to thank the panel for hearing us today.

Founded in 1985, the Council of Canadians is Canada's largest citizens' organization, with members and chapters across the country. We work to protect Canadian independence by promoting progressive policies on fair trade, clean water, safe food, public health care, and other issues of social and economic concern to Canadians. We are presenting at these hearings, not as energy experts but as an organization representing the concerns of tens of thousands of Albertans and Canadians across the country.

First, let me say that we have heard the arguments against raising royalties. It goes something like this:

- You don't change the rules in the middle of the game;
- Costs have exploded not just profits;
- You can't compare Alberta with Norway and Alaska because they are like apples and oranges;
- Recent changes by the federal government (income trusts, end of the capital investment tax break by 2015 but not, as feared, changes to meet Kyoto protocol targets) have hit the industry hard already;
- Investment will dry-up and the big players will go to a new playground.

These arguments can be summed-up by saying essentially that even a small change in the royalty rates will be very costly for Albertans in terms of lost investments. We are here to argue a position that this panel has heard before but needs to be restated. The status quo, while comforting for the short term is already costing Alberta a great deal but might cost future generations of Albertans a great deal more. In short, it's not because you have been able to pay off your mortgage that you need to let someone else run-off with your RRSPs.

The Cost

Alberta's energy is a major driver of Canada's economy and society and that Canada's energy sector makes substantial contributions to the national economy.

In strict financial terms this may be true, however, a number of authors including Hugh McCullum,¹ Maude Barlow,² and John Dillon, and research institutions like the Pembina

¹ Fueling Fortress America McCullum, 2006, CCPA, Polaris, Parkland Institute

and the Parkland Institute have clearly demonstrated that, although very lucrative, the oil and gas industry – and the tar sands especially - are very costly on the environmental and social fronts. It is generally acknowledged that emissions from the tar sands are a major obstacle keeping us from the commitments taken under the Kyoto protocol on climate change.

Some of the other now well-known examples of these costs are the devastation to the boreal forest; the vast amounts of water required for the mining process; the fact that the tar sands are already the largest contributor to the growth of greenhouse gas emissions in Canada; the use of relatively clean burning natural gas to extract heavy crude; the lack of infrastructure and public services in affected northern communities; the impact on aboriginal communities and their land claims, and the general lack of consultation with the public in general. To be blunt, we are concerned that future generations will not have the financial resources to deal with the environmental and social problems we are creating today.

While Alberta's financial house is in order at the moment, the question remains rather simple. Are Albertans, the owners of this resource, getting a fair return or are they being fleeced?

Interesting studies of royalties and rents around the world have been produced. They basically show that other countries, even as they rely on market conditions, receive much greater benefits than does Alberta.

As we all know, producers have had to pay Alberta only a 1 percent royalty until they recover all their capital costs. After all the costs of bringing a project on stream have been covered, the companies pay a 25 percent royalty on net project revenue, that is, after deduction of all operating costs.

*It is not hard to imagine how some of the companies take advantage of this incentive and keep on investing in the expansion of oil sands projects rather than make more ecologically responsible investments.*³

Likewise, a study by John Warnock for the Parkland Institute confirms that Canadian royalties are some of the lowest in the world, making the oil and gas industry the most profitable sector in Canada. Profits have almost tripled since the mid-nineties but royalties have not kept pace. The result of high prices and low royalties and taxes has been a very high return on equity, rising to 22.4 percent in 2005. Furthermore, with a shift away from conventional oil and gas and the lower royalties mentioned above for the tar sands, royalty revenues will decline from roughly \$11 billion in 2006-07 to 7 billion by 2009-10.

² Maude Barlow, *Too Close for Comfort*, M&S, 2005

³ Dillon 2006 <http://www.kairosCanada.org/e/resources/policyBriefing4Bolivia0610.pdf>
J. Warnock, *Selling the Family Silver*, Parkland, CCPA, 2006.

One of the more striking figures for us and one that illustrates the threat to future generations is, of course, the situation around the Heritage Fund. The current value of the fund started in 1976, as reported by the Parkland Institute, is approximately \$12 billion US compared to \$38 billion US for Alaska and almost \$300 billion for the fund Norway started in 1996.

When one starts to look at the royalty regimes around the world, it is clear that Alberta has been overly generous to the industry in recent years. We don't share the apprehension about investment drying -up. That often-repeated argument does not reflect the reality of the world oil market today where, increasingly, oil is produced in politically volatile regions of the world and where state intervention is omnipresent. By those standards, Alberta will always be a good place to invest. The oil companies realize their playground is shrinking and are less likely to pull up stake because their profit margins are slightly reduced.

If Albertans are to pay the costs associated with tar sands developments so that future generations are not saddled with environmental degradation, and uncontrolled social and health costs, the province must now start to recuperate more of the economic benefits of its own resources. That starts with a change to an outdated royalty regime that does not serve the long term interests of Albertans.

Respectfully submitted,

Lyn Gorman