

Presentation for the Alberta Royalty Review public forum May 15, 2007

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Thank you for this opportunity to speak on the issue of oil royalties.

I also participated in the Alberta Affordable Housing Task Force public hearings. While I have a good understanding of affordable housing issues, I have no detailed knowledge of the complexities of the oil royalties' issues.

Therefore I realize that my views may be simplistic, and that they are only my own opinions and views. However I think those opinions are shared by about 70% of Albertans.

I have a B. Comm. Degree and 20 years experience as an auditor. That does not give me any special knowledge or understanding of the oil industry or royalty structures. It does give me a good sense of when someone is giving me a “snow-job” and it seems to me that the oil companies are giving us a snow-job.

The oil companies are trying to persuade us that we should keep the same royalty rates we have now. “Those rates were set 10 years ago to revive stalled development when oil prices stagnated in a hard-times range of \$20 US per barrel”.

The industry says “the royalty regime is still appropriate and fair because it recognizes the high oilsands cost and investment risks....” If they see the so-called “risks” as such a big factor, maybe they would prefer that Alberta share the risks by paying 50% of the costs and taking 50% of the revenues (revenues, not net profits, since creative accounting can disguise profit). Norway does something like that and Norway gets a far better return from its oil than does Alberta.

Solid evidence that the current royalties are too low is the fact that the oil companies are happy with the current rates.

I want to make 3 points:

- 1) We don't want a fair price for our oil - we want the best price possible.**
- 2) We should be prepared to use increased royalty rates as a way of moderating the pace of development. Rates that lead to a rush to extract the oil are rates that are too low.**
- 3) Don't get all weak-kneed when oil companies threaten to take their investment dollars elsewhere if royalty rates increase.**

WE DON'T WANT A FAIR PRICE, WE WANT THE BEST PRICE

“That’s something you would even demand of your stockbroker. That is the least we should expect from our government as it sells off our non-renewable resources.”

Most of you here today can probably relate to “having a piece of property and selling it years ago, and now kicking yourself because it is now worth many many times what you sold it for”. I think the same situation will happen with respect to our oil resources.

The problem I see with the mandate given to this panel, if I understand it correctly, is that “fair” may be measured only against:

- Current royalty rates in other parts of the world.
- What the oil companies say they will accept without threatening to take their investment dollars elsewhere.

Not good enough.

We should expect a royalty rate as good or better than that enjoyed by any other oil-producing region, and we must reject any royalty structure that does not cover:

- 100% of the costs of oil industry development created problems in the areas of housing, environment, infrastructure, crime, other social costs PLUS
- Sufficient return to invest in diversifying our economy PLUS
- A return to all Albertans for a decrease in quality of life. (more congestion, housing crises, crowding of lakes and rivers and other recreation areas) etc.

The oil boom should pay all of the increased costs created by the oil boom, including infrastructure, services, housing, and environment costs. That has not been the case so far. Individual citizens should not have to pay those costs in the form of higher property taxes or, as the municipalities are proposing new taxes on such things as property transfers and vehicle registrations.

INCREASE ROYALTY RATES TO MODERATE THE PACE OF DEVELOPMENT

- A quote attributed to Fred McDougall, a retired forest-products industry executive and former Alberta deputy lands and forests minister:

In fact, a royalty increase is the best way to bring things back to normal. It is an objective and neutral way to delay or eliminate weak projects’.

McDougall called for a progressive oilsands royalty regime that would limit plant expansions eligibility for the low construction-period; raise the government's production-revenue share if oil prices rise; and penalize companies that fail to cut air and water pollution.

The current regime transfers oilsands income to Ottawa because federal corporate taxes represent a bigger share of production revenues than do provincial royalties.

- We have a premier who “will not put the brakes on development”. Yet a recent study commissioned by the Pembina Institute found that 71% of Albertans want a suspension of new oilsands development approval. Such luminaries as former premier Peter Lougheed and Reform party founder Preston Manning agree.

To recommend royalties increase to the point that it causes delays in development, its critical to appreciate the benefits of slowing down development to a more manageable pace. Those potential benefits include:

- Cleaner technologies may be available in even the near future. “The oilsands are set to become the single largest source of global-warming pollution in Canada if all the proposed development takes place. Now, we find that clean-air regulations will exempt oilsands”.
- We will be able to get a better deal in future. One does not have to be an economist to understand that the world demand for oil is growing, while supply, particularly supply from areas with a safe political and cultural climate, will continue to become more scarce and more valuable.
- “In the eyes of economists the most insane aspect is that we are giving our resources away. Yes, we are making lots of money now, but that is mostly from the construction boom, not from the stuff being taken out of the ground. The provincial government makes more money from gambling that it does from oil extraction. The heritage Fund remains almost stagnant while those resources disappear south, where the major profits are being generated at US upgraders. (Journal article May 11, 2007.)
- Delaying development may also alleviate the increased costs now associated with trying to build projects in the midst of an already over-heated economy.
- Delaying development, would give the time necessary to ensure appropriate regional planning and time to assess impact on water and air. Here is a quote from a may 8 Canada. Com story *Upgrade Alberta's upgrade reviews*.

With 6 more bitumen upgrader projects in the pipeline questions are being asked about the cumulative impact of all this industrial development in “upgrader alley

Little is known about the overall impact on air quality in the region and on the North Saskatchewan River of such a large concentration of industrial projects.

The EUB, the provincial regulatory authority...cannot look ahead to the cumulative impact of so many large industrial projects.

The government, so far has not taken on that job either and that’s a concern. The province’s Radke report raised a red flag on this issue last December. Alberta has not had “the opportunity or resources to undertake a review to determine if there is sufficient water available in the North Saskatchewan River to support these upgraders” says the report.

The province should play a role in that cumulative assessment for both air and water quality. Most importantly that work should be done before the next upgraders get too far into the approval process.

With respect to lack of regional planning: Edmonton is pushing for better industrial planning under a powerful new regional agency. The Stelmach government has delayed dealing with the request until early June.

Right now, you have a situation where, without a regional planning authority, counties may be giving all kinds of unnecessary incentives to the oil companies in order to lure projects away from other counties and municipalities. The oil companies are taking advantage.

- Delaying development would give us a chance to catch up with housing, infrastructures, and services.
- Slowing the pace of development, and spreading development over a longer period is best for Albertans, and will best ensure low unemployment over the long term. **Right now, the priority of government is to get imported labor. (If experience in the US and elsewhere is any guide this will rapidly become just a way for the oil industry to import cheap labor.) The priority SHOULD BE to manage growth to avoid the importation of labor and rapid population growth. A larger population means increased congestion, more pollution, more crowded parks and recreation areas, greater drain on natural resources, and a greater population to support when the boom runs out.**
- **Finally, we have a provincial government that has proven it is content with the benefits of the oil boom going disproportionately to the prosperous, while the costs of the oil boom fall disproportionately on the more vulnerable citizens. Postponing development may give us the opportunity to change**

governments and so have a chance of a better distribution of the costs and benefits of development.

DON'T BE COWED BY OIL INDUSTRY THREATS TO PULL OUT IF ROYALTY RATES INCREASE

What the industry says will happen and what actually happens are not necessarily the same. The oil industry is a heartless, bottom line oriented corporate world that cares absolutely nothing about the future of ordinary Albertans. Like any large corporation, it can be depended on to mislead us for the sake of maximizing its profits, and it has the ability to do so. Don't for a minute think that oil corporations are any better than the tobacco corporations that for decades were successful in convincing everyone, including government task forces, that "smoking was not harmful and not addictive". It's the way the corporate world works and everyone knows it.

The oil companies' time tested ploy is to parade visions of higher unemployment if we don't agree to maintain the lower royalty rates. (And of course they always have the figures to show why this is so.) The fact is that we had full employment before this oil boom, and we have enough projects already in the works to provide full employment for years to come. We have a better chance of more prosperity and higher employment over the long term by not falling for the oil companies' arguments.

Again, our oil will continue to increase in value over the long term. The demand for oil will continue to increase, while the supply will continue to decrease, particularly from areas with stable political and cultural climates. Companies around the world will be eager to get our oil, even at higher royalty rates.

OTHER COMMENTS

We can expect that this Stelmach government will buckle under any oil company threats to take their investment money elsewhere.

We have seen how this government handles the housing crisis. While landlords are "screwing" long-term tenants – many on low or fixed incomes – this government seems to think its responsibility is to hold a jar of Vaseline. It will open a new jar for the oil industry.

Stelmach dismissed most of his own Affordable Housing Task Force's recommendations. My opinion is that he will treat this Royalty Review Panel the

same way and will ignore or slough off “for further study” any of this panels recommendations that get in the way of unrestricted development. The oil companies will get the lion’s share of profit, leaving Albertans with the pollution and other long-term costs and problems.

My hope is that this Royalty Review Panel will make its recommendations for higher royalties, and make those recommendations in such a ways as to give our provincial government as little wiggle room as possible.