

Alberta Energy Royalties

Submission to the:

Alberta Royalty Review Panel

By:

Ken Unruh, P.Eng.

Presented to the Panel in Edmonton, Alberta, at the Delta Hotel on May 14, 2007.

Submission:

At this time a great opportunity exists for the Royalty Review Panel to make strong recommendations to turn the royalty program into one of great benefit for the Alberta people.

In the latest “boom” to now sweep over Alberta, a great opportunity has been lost for Alberta. The oil boom has now reached its apex, not because of world commodity pricing but because the economy is in such chaos, projects are being curtailed. The oil and gas that Alberta has, does not need to be removed in “one day”, it is not going anywhere. It needs to be removed in a coordinated manner and one that provides benefit to Alberta. The fundamental question that needs to be answered is; how can the Alberta economy improve the Quality of Life for Albertans, not, how many barrels of oil per day can be produced? As large oil production does not, by default, equal Quality of Life.

What entails Quality of Life? Education, expendable income, healthcare, roads, infrastructure, accessible government services, safety of citizens, affordable housing, and a quality range of consumer services. These key areas make up a good life for Albertans. The out-of-control Alberta economy has done very little to increase the Quality of Life in these areas, and in many areas it has even reduced the quality.

Taking this into account, then in essence, what the Alberta economy needs is an economic governor that can be controlled. The current economic governor is one based upon chaos, exorbitant costs and labour shortages. The royalty program can be this coordinated and controlled governor. It can do this in much the same way as the Bank of Canada uses the interest rate to control the economy of Canada. The royalty charged on oil and gas production needs to be continuously adjusted such that it has the ability to either stimulate or stifle the Oil & Gas industry on a continuous basis. Just as it would be ridiculous to fix the Canadian interest rate for an extended period of time, so too it would be to fix royalties.

If the royalties could have been manipulated by the Alberta people (government) on a continuous basis, the economy could have grown at a manageable and controlled rate. Now the economy is in an absolute turmoil. Its akin to the gold rush days of yore when rampant abuse, drunken excess, and crime were the order of the day. Alberta would like to think that as a society there has been advancement beyond this type of economy, but apparently that is not the case.

The typical Alberta syndrome of boom and bust could be greatly alleviated by having this variable rate royalty program. It would of course need to be administered with diligence and known measures so that overtime it would be something that the Oil & Gas developers would become accustomed to, just as the Canadian economy has adjusted to a manipulated and variable interest rate.

It can not be reiterated often enough that it is Quality of Life, not barrels of oil produced, that is the true measure of the wealth of Alberta. Economic output without benefit to Albertans, accomplishes little.

A sad result of the unbridled energy production in Alberta is the pressure placed on economic diversification. Any industry which can not match the energy sectors labour rates is driven from the market. Then as much as Alberta wants to diversify its economy, it is unable. For example; Alberta has a large forest industry and at this time the commodity prices for these products are quite low. Now at the same time this industry needs to compete for labour with the energy industry, and the most profitable industry will always win. This will just cause the forest industry's mills to close and the corporations to ramp up production in locales with lower labour costs. And its not just the forest industry, in reality the energy industry is taking labour away from all industry and this then forces any non-energy linked company to: shutdown, relocate, become less profitable, or reduce quality of service, and a lot of this has been happening. Its up to the people of Alberta to decide if non-energy industries should be allowed to flourish in Alberta, not an energy corporation headquartered in a foreign country. Alberta needs to have a solid and stable business environment for all industry, not just the Oil & Gas.

A large part of the Quality of Life is the province's infrastructure. Trying to complete infrastructure projects despite massive cost overruns is self defeating because it only worsens the labour shortage which in turns drives up the projects costs even higher. Another thought is to bring in temporary labour, but what good does it do to have temporary labour move into Alberta, only to leave when the boom is over? This does not improve the quality of life for Albertans other than to perhaps have a greater budget surplus from the increased oil and gas production, even though this surplus is in essence unusable because there is no spare capacity in the economy. Several true measures of Alberta's Quality of Life is when people move here because it is a good place to live not just because the jobs pay more than elsewhere, and when people stay here when they retire. If the only people here are those capitalizing on overpaid employment, the type of people living here will be transient and will not necessarily be the type of citizens that Alberta would want to build a safe place for families and long term Albertans. Currently, Alberta does not attract enough stable established families from other parts of Canada, and the world, but rather the transients and the migrant with no leanings toward a stable lifestyle.

A good catch phrase that describes the current economic times is; "Alberta has become the Fort McMurray of Canada".

Using economic chaos and exorbitant project costs as economic controls are not sensible measures in controlling Alberta's Oil & Gas wealth. Variable rate royalties is a tremendous step forward. Once the proper royalty regime is established, Albertans can then be in control of their economy and all that is left to be done is to decide what to do with the money.

Note: If the Review Panel would require any further assistance from this Alberta author, he is available.
Contact Info: Ken Unruh, 4103, 97 Street, Edmonton, AB, Ph:780-462-3111