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### **ROYALTIES IN ALBERTA TO SUSTAINABILITY OF ALBERTA Submission to Alberta Royalty Review Panel – June 15, 2007**

**Laurence G. Hoyer**

#### **A Binding Assumption**

**Anyone or any corporation which takes a resource out of or off the ground in Alberta should pay into a non-depleting inflation proofed pool of funds maintained by the Provincial Government and accounted for annually to the citizens of the Province.**

This would cover all resources including water, sand, gravel, oil, gas, bitumen and all other minerals and would include agricultural and forestry products to name a few.

Now of course there would be uproar from business and industry about such a proposal but if we are to maintain Alberta over time in some modified equivalent form then this is necessary. After the din had died down, cooler heads in business would realize that they are paying such fees now and that it is the governments that are depleting the remnants of the resource by spending the royalty fee resource in the interests of short term gain. It is a mistake to put royalty revenues into government general revenues. This is designed to give politicians maximum flexibility in spending on short term gain projects. Special dispensations to industry by governments do not encourage longer term thinking in industry about the impact on society of their products and the downstream effects good and bad.

In determining the amount levied on each resource one would have to take into account a wide range of concerns. These may include the impact on the environment of the creation of the products and their derivatives, the impact on the health of the human population, the time line for recovery of the resource (if applicable), etc.

In the case of renewable resources, such as in agriculture or forestry there would be little impact unless the land resource could be shown to be diminished. In case of forestry there would have to be a royalty paid into a non-depleting fund managed by Government in order to sustain and renew that resource.

The story would be quite different for depleting resources, such as oil, gas, or bitumen since there is no way to restore the resource. We can however build up a trust fund by royalty payments over the years, after inflation proofing, to a level which would sustain a certain level of cash flow into the foreseeable future. Time is on our side since the original resource was not created instantaneously but over time. The same policy could be applied to the trust fund. The

trick is to keep politicians from spending the trust fund immediately on other items of short term value. It is not good form to burn your house down just to collect the insurance albeit over a long time period!

How would one establish the level of such royalty fees and how to maintain them as circumstances change?

In the case of renewable resources there would have to be sufficient fees in trust to restore and nurture the resource back to maturity. Those using the resource would be required to pay into the trust fund in proportion to their use of the resource and governments would have to account for any expenditure from that source.

We must also educate the citizens to realize that our resources are not infinite but are without question finite and require stewardship. We cannot assume that some magic ship is going to arrive to rescue us after the resource is gone. The argument is often advanced that a resource left in the ground does no good for anyone. I disagree. The kept resource is available to future generations for use and perhaps use more wisely than the current generation.

How would one establish the level of such fees and how to maintain them as circumstances change?

A possible scenario would be to have Alberta establish a number of commissions at arms length from governments of the day. These commissions would hold public hearings and make public recommendations to governments who would have to act on them within six months. Fee levels would be required to be reviewed every five years thus allowing industry some sort of temporal stability. The commissions would consist of no more than three people.

We should move away from the term “royalty” as it already has too much baggage associated with it. We could call it the “Resource Sustainability Fund or RSF” for short.

The bulk of the present royalty system grew out of a series of developments starting with oil and gas and all the alternatives and wiggles associated with those. It has grown by increments without much thought to the bigger picture of where the resource train is heading. Every resource harvested in Alberta lessens the Province to a certain degree and unless we stop this we will have nothing but a wilderness to inhabit.

Now in fairness to our resource industries we cannot change the whole regime overnight but we must let them know that change is coming and will be complete in some fixed period of time, say no more than ten years. Grandfather clauses will not be acceptable since they just encourage industry decision makers to do nothing. It is always appealing to do nothing when one's comfort level is high!

**LAURENCE G. HOYE** - Born in Lloydminster, SK on June 9 1932. Attended a one-room country school south of Lloydminster for four years, and then moved to Edmonton. Attended the University of Alberta and earned a B. Sc. (Hon), '55, and M. Sc. '56 in Mathematics. Further graduate work at the University of Washington. Joined the Lethbridge Junior College in 1961, then the University of Lethbridge in 1967 where he held various academic and senior administrative posts, such as Associate Vice President (Academic). Retired in 1993.