Alberta should hike oil sands royalties: report

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Edmonton — Albertans are not receiving "their fair share" from the province's energy industry and the government must significantly hike royalties in the oil sands, according to a much-anticipated report released Tuesday afternoon.

"Albertans do not receive their fair share from energy development and they have not, in fact, been receiving their fair share for some time," said Bill Hunter, chair of the six-person expert panel that wrote the surprisingly blunt report that investigated whether the debt-free province was receiving adequate oil and natural gas revenues.

The panel found that the government's royalty tax take "ranks very low" against competing jurisdictions, especially in the oil sands arena. It recommended that royalties and taxes be raised by around $2-billion a year, a 20 per cent increase.

In recent weeks, various warnings have been issued from oil patch executives against the provincial government tinkering with the royalty restructure, which hasn't been updated since the mid-1990's.

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The Progressive Conservative government is expected to provide a formal response to the 104-page report by mid-October. In 2006-07, Alberta collected $10-billion in energy royalties.

"Albertans made it clear that examining the province's royalty regime was a priority to ensure they are receiving their fair share from energy resource development," said Premier Ed Stelmach. "Albertans, as owners of the resource, now have the opportunity to examine the details of this report as government thoroughly reviews the recommendations."

The royalty review process started in February when Mr. Stelmach's government appointed the panel, which included experts in resource taxation and the royalty system. The panel held five public meetings across the province and received 300 submissions.

The panel concluded that it's fair to hike royalties for oil sands projects because the area is a "production powerhouse." It is also recommending businesses operating in the oil sands pay a new tax.

It rejected essential industry arguments that higher costs, which have plagued all oil sands projects, are a reason to keep royalties the same.

Mr. Hunter has urged the government against grand-fathering in any hikes "on the grounds of fair treatment for all participants."

The panel has asked the government not to increase more than half of convention oil and gas royalties on the grounds that this sector of the industry is on the decline.

Mr. Hunter said that during the review process, the panel found the province's royalty regime was complex and "almost impossible to follow." The panel also discovered that government bureaucrats couldn't answer many questions because "useful information is not adequately collected in the first place."

The panel is recommending in the "strongest possible terms" an accountability package that forces both industry and government to regularly publish data about the energy industry.

Mr. Hunter estimated that the Alberta government has been missing out on more than $1-billion annually from royalties they were entitled to.

The report is being released at a time when the Progressive Conservatives and its new leader, Mr. Stelmach, are struggling in the public opinion polls.

Political observers are closely watching how the 36-year-old government handles this delicate file.

Faron Ellis, political scientist at Lethbridge College, said it's unlikely that Mr. Stelmach will do anything dramatic because it's not his political style. "He does his homework. He's not Ralph Klein…The 'Steady Eddie' approach demonstrates that he has no intention of being Ralph Klein."

Prof. Ellis also said he hasn't seen a huge public appetite in Alberta to dramatically reform the royalty regime to get a lot more money from the oil patch.

Alberta Liberal Leader Kevin Taft disagrees.

"There's a genuine interest at street level amongst citizens about this issue," he said in an interview. "There's a mood out there as the owners of the resource that they aren't getting a fair share." The Liberals want the government to collect up to 25 per cent of total value in royalties.

He said this is a "big issue" for Alberta and a major moment for the Stelmach government, which has "struggled to be decisive on virtually everything it has faced.

"It's very, very important for the government to handle this one effectively," Mr. Taft said. "It's much more important to them than us in a way. You've seen their [polling] numbers."

A quick look at Alberta's current energy royalty system:

History: Concept of royalties dates back centuries. They are a way for the owner of a resource to exact a payment from the person developing that resource. What the specific rate should be is the tricky part.

Government Revenues: Energy sector paid Alberta government about $10-billion in royalties in fiscal 2005-06, not including lease sales. Industry says royalty-related revenues account for 40 per cent of total provincial revenues.

Lease sales: Companies bid against competitors for right to explore and develop oil and gas on parcels of land. These fees, paid whether energy reserves are found or not, generated a further $2.4-billion in provincial revenues last year.

Provincial royalty goal: Fluctuated over the years, but currently sits between 20-25 per cent of total energy industry revenues. Critics charge current take is below 20 per cent and far less than other producing jurisdictions, including Texas and Norway.

Conventional oil and gas: Production-based royalty paid on a sliding scale based on price and productivity per well. Formula enables government to get a higher take if well is more prolific than expected or if price rises significantly. Industry says producers are left to shoulder any unexpected higher costs.

Oilsands: Companies pay just 1 per cent of gross revenues until all project construction costs are recouped, then the rate climbs to 25 per cent of revenues, minus costs. Industry says that when federal and provincial income taxes added, the share of revenues between government and industry is close to 50-50.

Other provinces: In Saskatchewan, oil and gas royalties and taxes are forecast to top more than $1.2-billion, or about 17 per cent of total provincial revenues. Like Alberta, royalties are collected on a sliding scale based on the age of the wells, quality of oil, etc. In Newfoundland, royalty rates differ on the three producing offshore oil projects. The province also recently announced small equity stakes in the latest offshore project, Hebron, as well as the White Rose expansion.

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