

Cdn. Oil Sands joins call for restraint in royalty rises

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CALGARY — A third major oil sands executive says Alberta could potentially charge higher energy royalties, but that current proposals on the table go too far and could damage the industry.

In an interview with The Globe and Mail, Marcel Coutu, chief executive officer of **Canadian Oil Sands Trust**, which holds the biggest stake in **Syncrude Canada Ltd.**, said yesterday that there is "room for a review" of Alberta's royalty rates.

"I have a huge amount of faith that the [provincial] government continues to want to create incentives for oil sands investment and not kill the golden goose," Mr. Coutu said. "I am very confident that the government will make the right call, which isn't a wholesale acceptance of the recommendations but some form of compromise ... A burden must be chosen that will optimize the eventual value of this resource."

His remarks follow those of leading oil patch figures Murray Edwards, vice-chairman of Canadian Natural Resources Ltd., and TransCanada Corp. CEO Hal Kvisle that while firms could pay more royalties when commodity prices are high, the provincial government must be wary of placing too heavy a fiscal burden on the sector.

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Last week, a report commissioned by the Alberta government said the province hasn't been getting its "fair share" from its energy resources and advocated wholesale changes to its royalty structure, including raising oil sands royalties from 25 per cent to 33 per cent on projects whose costs have been recouped. The government is analyzing those proposals, with a decision expected in mid-October.

In the interview, Mr. Coutu played down the significance of the provincial review process, saying it wouldn't affect energy firms nearly as much as the federal government's decision last year to make income trusts pay corporate tax. While he described the majority of the report panel's work as "pretty good," he said that some of its conclusions are "misguided," singling out the proposed severance tax - a new charge recouping proportionally higher rates from producers as commodity prices rise - as particularly flawed.

"The report concludes that taking a royalty is the right approach for the industry, and then recommends this very big tax on top-line revenues against which companies have no protection," he said. "Structurally, I think it's wrong, while its size compounds the changes to the bottom-line royalty changes that are already going to be difficult for the industry to digest."

Mr. Coutu wouldn't comment on what level Alberta ought to change its royalty to, but said that the 33-per-cent figure proposed by the panel was a "pretty big number" that "makes you gulp."

Canadian Oil Sands is the largest stakeholder in Syncrude, Alberta's largest oil sands project, whose royalty agreement is governed by a pre-existing contract that runs until 2015. It's unclear whether the province would be able to break that agreement without a costly legal challenge.

Mr. Coutu wouldn't comment on whether Canadian Oil Sands has plans to defend that agreement, saying only that the situation is "problematic."

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