


 [GO](#)


Want to see more national reporting? [Help fund it...](#)



**N E W S**

## Royalty Miscalculation Cost Alberta Billions, Expert Says

'The Tories chose to pretend the big blunder did not happen,' says consultant Jim Roy.

By [Andrew Nikiforuk](#), Today, [TheTyee.ca](#)

[Email](#) [Print](#)



The Alberta government has failed to collect nearly \$2.5 billion per year in resource royalties since 2009 due to a major calculation blunder, according to Jim Roy, a private royalty expert who advises governments around the world.

As a consequence, the province has failed to collect \$13 billion in the last five years, [charges](#) Roy, a former senior advisor for royalty policy for Alberta Energy.

That's not what Alberta's long-reigning government promised to voters in 2007.

After a controversial royalty review, the first one in a decade, premier Ed Stelmach told Albertans that the new formulas for calculating royalties would increase Alberta's "fair share" of hydrocarbon profits by \$2 billion a year,

Alberta's 'fair share' has plummeted due to bad forecasting and flawed calculations, says Jim Roy. Photo of Sandstone Valley, Alberta, Creative Commons licensed.

**RELATED TYEE STORIES**

- » [Canada Is a Lousy Oil Negotiator](#)  
We collected less than one-fifth the tax and royalty benefits Norway did in 2012. Ouch.
- » [How Much Does Western Canada Subsidize Fracking?](#)  
Compared to US gov'ts, which

ADVERTISEMENT

#RejectFear #StopC51  
**Help stop Bill C-51**  
Sign the Petition!  
OPEN media

**MOST EMAILED**

- » [PM Spawns Literary Genre: The Political Horror Story](#)
- » [Landmark Fracking Case Gets a Supreme Court Hearing](#)
- » [Primed for Change: Alberta Voters Flock to NDP](#)
- » [What's Next for Canada if Tories Lose Election?](#)
- » [Finn Slough: An Off-Grid Urban Wilderness on the Fraser River](#)
- » [Norwegian Whistleblower Shouts Out Tyee 'Norwailer' Mitch Anderson in Alberta Lecture](#)
- » [Royalty Miscalculation Cost Alberta Billions, Expert Says](#)
- » [Athletes Discover Healing Power of All-Season Ocean Swimming](#)

beginning in 2009.

At the time Jim Prentice, then federal industry minister, supported the changes proposed by Stelmach.

But instead of increasing royalties by \$2 billion a year, Alberta's "fair share" plummeted due to bad forecasting and major flaws in how the province collects natural gas and bitumen royalties, Roy said.

take home a greater percentage of revenue, quite a bit.

» *Primed for Change: Alberta Voters Flock to NDP*  
Corporate-friendly spring budget was final straw for angry electorate.

"Announcing a royalty *increase* and delivering a royalty *decrease* is difficult to explain to voters," Roy said. "The Tories chose to pretend the big blunder did not happen. Nobody talks much about the government gifting the petroleum industry \$13 billion."

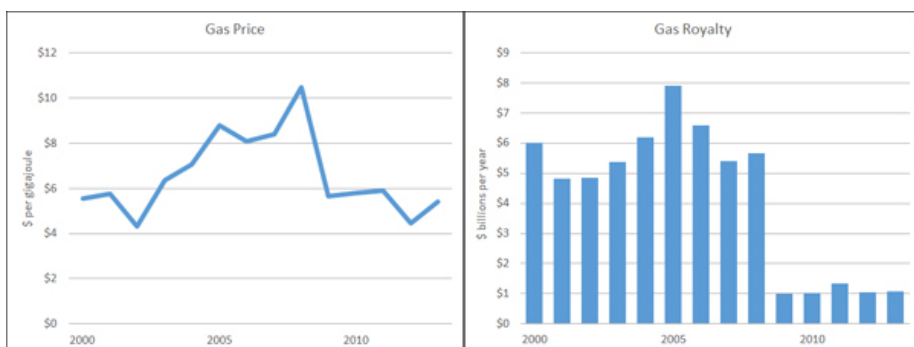
#### Rates more sensitive to price

The management of Alberta's hydrocarbon income has become a significant election issue as the Tory government has posted a \$5-billion deficit and raised taxes and cut services for ordinary Albertans.



Since 2009, natural gas revenue for the government has experienced the greatest losses. The new formula implemented in 2009 made the royalty rate much more sensitive to price, and the new formula substantially dropped royalties for unconventional resources such as shale gas.

"The government expected natural gas prices to rise, but instead they collapsed," Roy said. "As a result, government earnings from natural gas dropped by \$5 billion after 2009."



Despite a substantial increase in world oil prices between 2009 and 2014, bitumen earnings did not increase significantly. Any upward shift in earnings was largely due to added production in volume or project pay-outs. Bitumen developers don't pay royalties until they have written off their capital costs.

But therein lies another problem, Roy said. Alberta has a low royalty rate for bitumen compared to rates in countries that have similar heavy oil resources. Alberta, for example, takes from 25 to 40 per cent of profit, equivalent to 10 per cent of gross revenue. In contrast, Venezuela, which also extracts heavy oil, takes 40 per cent of gross revenue -- four times as much as Alberta.

Saudi Arabia captures 85 per cent of profits from its oil fields, while Norway takes 80 per cent of profit -- both three times as much as Alberta, Roy said. "Newfoundland/Hibernia takes 30 to 50 per cent of profit, plus 7.5 per cent of gross revenue or twice as much as Alberta."

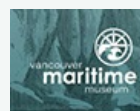
The royalty expert also argues that the province has failed to control the pace of bitumen development. As a result, industry has put too much bitumen on the market and that glut, in turn, has played a role in driving down global prices.

"The oil sold at low price is gone. The money is lost. The world has given Alberta a clear price signal. Alberta would be foolish to continue increasing bitumen production for sale at low price," Roy said.

According to Roy's calculations, approximately 40 per cent of Alberta's projected deficit for

- » Among Millennials, No Political Party Has a Commanding Lead
- » Joe Oliver's Budget Numbers Are Thoroughly Cooked

### TYEE PRESENTS { Contests, events & more from Tye and select partners



#### CONTEST: WIN AN ARCTIC EVENT PACKAGE FROM VANCOUVER MUSEUM

Three lucky winners will get free passes to Across the Top of the World, about the quest for the Northwest Passage. Grand Prize winners get opening gala tickets for four, and an evening dinner cruise.

#### TYEE MASTER CLASS: MAKE SMARTER DECISIONS WITH YOUR WEBSITE WITH ANALYTICS

On May 9th, Eric Squair will lead this hands-on introductory class, focused on giving you actionable insight into how to be more effective in your online work.

#### TYEE MASTER CLASS: ONLINE CAMPAIGNING

Online campaigner Emma Pullman will take you on a full-day journey of collaborative, hands-on training in online campaigning and strategy.

### MOST POPULAR

- » Royalty Miscalculation Cost Alberta Billions, Expert Says
- » Norwegian Whistleblower Shouts Out Tye 'Norwailer' Mitch Anderson in Alberta Lecture
- » What the Court Said, and What It Means for BC Schools
- » Is a Liberal and NDP Coalition Inevitable?

We've reeled in the Hook, for now. Find out why [here](#).

### T Y E E V I D

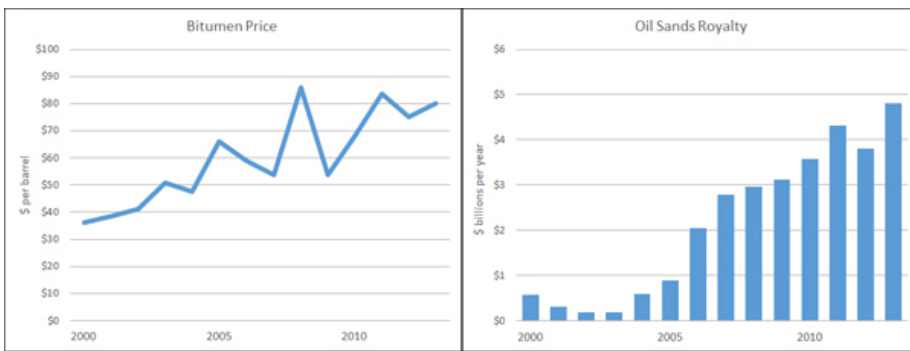


Submitted by Tye staff, Yesterday

Norwegian whistleblower shouts out Tye 'Norwailer' Mitch Anderson in Alberta petro-lecture.

Where do these videos come from? From you. Suggest one [here!](#)





fiscal year 2015/16 could be eliminated by returning to the royalty formulas in place prior to 2009.

Bitumen prices and Alberta bitumen royalties. Source: Jim Roy, Parkland Institute.

### NDP vows royalty review

Rachel Notley, the leader of Alberta's New Democrats, has already promised to hold a review of the province's royalty structure if her party wins next Tuesday's election.

Premier Prentice contends that a major review of Alberta's royalty formula would have negative consequences.

"I don't think you ever say categorically in the history of the province we should never review where we stand on royalties," the former corporate banker told the *Calgary Herald* on April 29.

But given low oil prices, "it is the worst thing we could do right now where we are fighting to hang on to every job we can," he said.

The province's oil industry has already come out against adjusting Alberta's royalties, among the lowest in North America.

"I don't think there's any room for any increase in royalties," Cenovus president and CEO Brian Ferguson told Bloomberg News this week.

"If there are changes that make the structure uncompetitive, that will be negative for investment in Alberta."

In 2006, Alberta's auditor general reported that the government planned to collect 66 per cent of the economic rent or profits available from petroleum extraction, but the government was not meeting its objective and was not clear about how it even measured economic rent.

The Tory government reached that target only once in 1998. Alberta's share dropped to 31 per cent in the years 2000-2008. Although the new royalty formulas were intended to increase the rent collected, the share collected by the owners of the resource dropped to 13 per cent. 🐾

Andrew Nikiforuk is an award-winning journalist who has been writing about the energy industry for two decades and is a contributing editor to The Tyee. Find his previous stories here. This coverage of Canadian national issues is made possible because of generous financial support from our Tyee

Builders.

Email Print

What have we missed? What do you think? We want to know. Comment below. Keep in mind:

- |  |  |
|--|--|
| <p>Do:</p> <ul style="list-style-type: none"> <li>o Verify facts, debunk rumours</li> <li>o Add context and background</li> <li>o Spot typos and logical fallacies</li> <li>o Highlight reporting blind spots</li> <li>o Ignore trolls</li> <li>o Treat all with respect and curiosity</li> <li>o Connect with each other</li> </ul> | <p>Do not:</p> <ul style="list-style-type: none"> <li>o Use sexist, classist, racist or homophobic language</li> <li>o Libel or defame</li> <li>o Bully or troll</li> <li>o Troll patrol. Instead, flag suspect activity.</li> </ul> |
|--|--|



### REPORTED ELSEWHERE

- » Jessica Ernst's fracking case to be heard by Supreme Court of Canada (via *CBC News*)
- » TransCanada Keystone pipeline 1 suffered major corrosion after only two years in operation (via *DeSmog Blog*)
- » Vancity mutual fund drops fossil fuel companies... (via *the Vancouver Sun*)
- » ...as HSBC starts advising clients against fossil fuel investment (via *TIME*)
- » Bill C-51: still baking with the wrong recipe on the Charter of Rights & Freedoms (via *National Security Law*)
- » Chretien meets Putin in Moscow, in face of Harper isolation: report (via *Maclean's*)
- » NASA's Messenger probe hits Mercury (via *NBC News*)
- » Canada's Andrew Wiggins had been named NBA Rookie of the Year: these are his best five dunks (via *Sportsnet*)

SEE MORE »

Y O U R B C : T H



[Join The Tyee's Flickr group »](#)

[View previous selections »](#)

### MOST COMMENTED

- » Among Millennials, No Political Party Has a Commanding Lead (159 comments)
- » BC NDP Candidate Entry Fee Betrays Grassroots, Critics Say (116 comments)
- » Primed for Change: Alberta Voters Flock to NDP (105 comments)
- » What's Next for Canada if Tories Lose Election? (97 comments)

Web2PDF

- » [Court Sides with BC Gov't in Battle over Teacher Bargaining Rights](#) (87 comments)
- » [Watchdog Group Wants Audit of Taxpayer-Funded Ads](#) (88 comments)
- » [Is a Liberal and NDP Coalition Inevitable?](#) (79 comments)
- » [Royalty Miscalculation Cost Alberta Billions, Expert Says](#) (69 comments)
- » [PM Spawns Literary Genre: The Political Horror Story](#) (61 comments)
- » [Four Things We May Never Know about the Vancouver Fuel Spill](#) (54 comments)

**In the 2011 election, both major national newspapers in Canada endorsed Stephen Harper.**

**The Tyee doesn't endorse politicians. Just good journalism.**

**SUPPORT THE TYEE'S 2015 FEDERAL ELECTION COVERAGE ►**



**The Tyee:**

- [About The Tyee](#)
- [National Pool](#)
- [Contributors](#)
- [Advertise](#)
- [Contact](#)
- [Funding](#)
- [Jobs](#)
- [Master Classes](#)
- [Privacy Policy](#)
- [Submissions](#)
- [Support The Tyee](#)

**Articles:**

- [News](#)
- [Culture](#)
- [Opinion](#)
- [National](#)
- [Mediacheck](#)
- [Solutions](#)
- [Video](#)
- [Publications](#)
- [Tyee News](#)
- [Weekly Archives](#)

**Other News:**

- [Reported Elsewhere](#)

**Columns:**

- [Steve Burgess](#)
- [Murray Dobbin](#)
- [Michael Geist](#)
- [Crawford Kilian](#)
- [Rafe Mair](#)
- [Andrew Nikiforuk](#)
- [Shannon Rupp](#)
- [Bill Tieleman](#)
- [Dorothy Woodend](#)

**Your Account:**

- [Follow The Tyee](#)
- [Subscribe by email](#)
- [Subscribe by RSS](#)



Managed Hosting by Gossamer Threads