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Royalty review just good business

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The Americans are frothing at the mouth. So are oil company CEOs, but Alberta Premier Ed Stelmach was absolutely correct in commissioning a report to examine oil royalties in Alberta.

The report, made public this week, recommends increasing overall royalties by 20%, equivalent to $2-billion based on 2006 revenues.

It's important to note that what is being discussed is not taxation but the royalty paid to Albertans who own the lion's share of subsurface mineral rights in the province. And they are not getting as much revenue from their resources as competing jurisdictions are, according to the report. Industry spokesmen dispute the numbers and say Alberta's take is already high enough, and any higher will drive away investment.

"We will make sure we get it right," said the Premier in a luncheon address at the Global Business Forum in Banff attended by CEOs and others.

That's, quite frankly, his job to juggle public and private interests for mutual benefit, which is why the most critical figures in this report are comparisons.

For instance, conventional oil and gas royalties and taxes in the U.S. average 67% while they are 50% in Alberta, said the report.

Non-conventional oil production -- offshore and heavy oil -- is another interesting story. Heavy oil royalties in Cold Lake are 60% compared with Nor-way's offshore royalties of 76%, California's heavy-oil royalties (and taxes) of 67.5% and Venezuela's 72%.

If these figures are substantiated then the argument for higher royalties is compelling. If not, then the recommendations should be placed in a dust-bin.

There are also those industry sources who say that even if Alberta's numbers lag and royalties go up, activity will fall, which will hurt Albertans. They point out that there are already idle rigs in the province, mostly due to low natural gas prices and high costs driven by the oilsands boom.

The boom has imposed a "tax" on most Albertans and they're not happy about it. Housing costs have leaped along with rents, labour rates, labour shortages and there are crowded schools, hospitals and roads. It's Albertans, who own the oil, whose tax dollars are financing the enhancement of provincial infrastructure.

Unfortunately, the review comes on the heels of Ottawa's income trust debacle and has led many, including American investment guru Dennis Gartman, to conclude that Canadian governments are revenue-grabbers without reason. He said he's exiting Canada.Many American investors followed his advice and hammered stocks. One analyst called the province "Albertastan".

To me, both the markets and media have been hysterical about nothing. Stelmach is not some fiscal confiscator. He's the CEO of the most valuable jurisdiction in the Western hemisphere and his review of royalties is simply prudent business practice.

As for the trigger-happy Mr. Gartner, I say good riddance and good luck. Where will he and his investing flock find another oil Promised Land? California? Norway? Venezuela? Or perhaps Putin's Russia?

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