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Tories to hear review gripes

Royalty report 'draconian,' says oil icon

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CREDIT: Mikael Kjellstrom, Calgary Herald

Premier Ed Stelmach addresses the Global Business Forum in Banff on Thursday. Stelmach says he's all ears before deciding on a report on royalties the government collects on oil and gas development.

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Premier Ed Stelmach said Thursday his government will hear out oilpatch officials who are in an uproar over contentious royalty proposals, as influential oilman Murray Edwards branded the new report "draconian."

With the oilpatch still seething over the new royalty study, Stelmach said industry will have a chance to meet with key ministers to discuss its concerns, namely the data the report's recommendations are based on.

The new study found Albertans are not getting their "fair share" from oil and gas development in the province, recommending changes to the royalty and tax system that would boost the government's take by $2 billion annually.

"If there's an issue there (with the report), I'm sure industry will be sitting down with our finance minister and our minister of energy, and then the two ministers will bring that forward to caucus," Stelmach told reporters.

Stelmach rejected the suggestion that industry might be getting special access.

"All Albertans can submit their comments to government," he said, after addressing a blue-chip business crowd. "This is a major report that was made immediately public. So, there's no private component."

In a day that suggested an 11th-hour

showdown is looming, oilpatch financier development.
Edwards said industry was willing to accept changes in royalties, but the recommendations went too far.

"The leaders in industry have never said that there wasn't opportunity for changes but they've always said let's make changes that don't throw out the baby with the bath water," Edwards told reporters in Banff. "The fear is that some of the proposals that are in the report are so draconian and so drastic that you may result in less economic activity and less revenue overall over the long term for Albertans."

The comments came as one of the members of the six-person panel that penned the report defended the 104-page study.

Since the report was released this week, it has been harshly criticized by some financial observers, with one comparing Alberta to Venezuela, where socialist President Hugo Chavez expropriated oil assets this year.

Panel member Ken McKenzie, a professor and head of the University of Calgary's economics department, believes that kind of criticism goes too far.

"We're not way out of line here, so these kinds of emotional statements -- that we're Caracas on the Bow or Albertastan -- are way offside," he said in an interview. "There are equal -- if not more -- people saying this is great."

He said the strong reaction isn't unexpected.

"It's not surprising. This is a big issue; in many ways, a defining issue," he said.

The government is taking until mid-October to decide what it's going to do with the recommendations included in the report.

The study, written by a six-member expert panel, found other energy-producing jurisdictions in North America -- including Texas, New Mexico and California -- give residents a bigger share of the money generated in the form of royalties and taxes.

It calls for a significant increase in oilsands royalties and boosting the provincial take from high-production oil and natural gas wells.

Of particular irritation to the industry, the report recommends its proposals apply to all development regardless of age, not just new ones.

McKenzie acknowledged the lack of grandfathering would be a key issue of debate, as well as restructuring the conventional oil and gas royalty system.

"This was not a tinkering report; there's major changes proposed all around," said McKenzie. "The report issued by the panel is a good piece of work . . . it will be the focal point of a good deal of discussion."

But Edwards, who is vice-chairman of Canadian Natural Resources Ltd., which is building the $7-billion Horizon oilsands project, cautioned that changing the rules on existing projects could face a legal challenge, although he added it was too early to say whether his company would take such action.

"It's one thing to change rules on a go-forward prospective basis, but for major projects that capital has been provided for, to change the rules retroactively, that's a long-term sanctity of contract," he said.

Edwards called for an open dialogue between government and the industry to understand where the opportunities are for the government to attain additional revenue without impacting the strong economy.

Any further dialogue would come in addition to the numerous submissions industry made to the panel in past months.

"I think the report has got bad data in terms of understanding the economics of the basin, understanding some of the reserves, in terms of the comments that industry needs to do a better job controlling their costs," Edwards said.

Mike Tims, chairman of Peters & Co., a Calgary-based investment firm, said if the report was implemented in its entirety, the fallout could be severe. He believes that the net asset values of oilsands projects could drop as much as 30 per cent.

"The premier is saying he doesn't want to hear alarmist views," Tims said. "But there needs to be some reasoned analysis to what could happen to capital investment if recommendations come in that have that dramatic an effect."

But Kent Moors, president of Risk Management Associates, a U.S.-based international energy consultant, disputed industry's claims that capital would flee Alberta if the royalty changes were put in place.

He said the province will still be very competitive with other countries.

"It is not going to take place . . . this is the only major supply side push left in the international oil market, so people either invest here or they see their profit margins dwindling in the future -- there is no other alternative," he said.

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