



## Playing chicken with royalties

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In a modern-day Aesop's fable, flocks of chickens have crossed from B.C., Saskatchewan and Montana -- coming home to roost in Alberta.

Provincial officials were flummoxed by this mass migration. The price of poultry dropped. Albertans complained they were sick of slaughtering and eating the birds. Sadly, Colonel Sanders reported layoffs as few wanted to buy their "finger-lickin' good dinners."

Like all fables, this too has a moral. Foolish deeds, like chickens, come home to roost. In Alberta's case, it is embodied in the infamous phrase: "Our fair share."

In 2007, the Calgary Chamber of Commerce appeared before the Alberta Royalty Review Panel to caution against dramatically changing the royalty system. Our members believed it risked undermining investor confidence and capital flight.

The government ignored our advice. Instead, it decided to "rebalance the royalty and tax system to ensure a fair share was collected on behalf of the grandchildren and yet-to-be born great-grandchildren of Albertans."

Now it's 2009 and the chickens have come home to roost.

Alberta is no longer favoured by investors. Unfortunately, according to the Fraser Institute's Global Petroleum Survey, Alberta rates 92 out of 143 oil and gas basins globally. Worse, investor confidence has evaporated so significantly that Alberta ranks eighth within Canada.

Some of Alberta's politicians and bureaucrats assert the Fraser survey only measures the perceptions of energy executives and disregards the true potential of the basins.

Global capital quickly flows from areas with high royalty fees or taxes, insufficient infrastructure, price controls, skilled worker shortages and costly regulatory regimes and moves to regions creating good returns for shareholders and institutional investors.

The survey reports these decision-makers rate Alberta as the least fiscally-attractive region in North America and 11th worst in the world.

The petroleum industry used to represent 42% of Alberta's economy --15% generated by direct oil and gas exploration and production while another 27% came from downstream and spin-off activities. No longer.

Public and private investments have dropped 17.2% while mining and energy investments are down 28.2%. Energy exports slumped 43.4% as the capital dried up.

Even the neighbourhood dry cleaners have seen a drop in business as thousands of laid-off oilpatch workers no longer need their coveralls washed or suits pressed.



It's time Alberta changed the royalty regime to again attract capital, stimulate the economy and enable industry to create challenging jobs for the unemployed. The Chamber asks the government to:

- Prioritize a competitiveness review now underway and implement its recommendations to improve investor confidence.
- Make Alberta the most competitive jurisdiction for energy investment in North America within five years.
- Change the royalty system to better compensate for investor risk by reducing the short-term royalty take to allow for faster recovery of capital costs and reduce the steepness of the royalty curve so the rate better tracks price and production increases.
- Restore investment certainty through fewer short-term, temporary measures.
- Reduce regulatory costs and timeframes by streamlining the legal framework so small companies can get projects approved quickly.

Alberta is well-positioned to be a leading energy producer for decades. Challenging unconventional resources -- oil sands, shale, tight and sour gas -- are all a vital part of our future. Surely the government will not linger until Alberta is globally regarded as the least fiscally-attractive basin to do business before it makes changes.

We can't wait for more chickens to come home to roost.