



# ALBERTA ROLLS BACK ROYALTIES

Can you imagine yourself saying, “Oh, hey Mom. In case you were wondering, you can cut my allowance by 20 percent. It’s cool.” Not likely, right?

But on March 11, Premier Ed Stelmach did pretty much just that when he announced Alberta will take a reduced cut from oil and gas production.

## THE ROYALTY RUNDOWN

Alberta charges **royalty rates** to energy companies for developing oil and gas resources in the province. But the government has decided to reduce these royalties. Royalty rates for conventional oil will fall from 50 percent to 40 percent of **revenues**. Natural gas rates will dip from 50 per cent to 36 per cent.

## ROYALTY RUNAROUND?

It’s a flipflop from the government’s position in October, 2007. That’s when the Alberta Tories raised royalties on oil and gas by 20 percent. At the time, critics in the industry advised against this move. They said increasing royalties during a recession would stall investment. And it was a poor choice at a time when oil and gas prices were on the slump.

But Albertans liked the idea. Premier Stelmach was re-elected in 2008 with the largest majority in Alberta history. One of the reasons for his re-election was the plan to hike oil and gas royalties. Voters felt that the industry could afford to shoulder some of the costs of **inflation** and worker shortages that were problematic at the time.

## REASONS FOR THE REDUCTIONS

But early this year, an economic report tagged Alberta as the least competitive energy hub in North America. The reason? Alberta’s royalty rates are higher than in most other oil-producing areas.

Not wanting to be the last choice for oil producers, Alberta’s now changing course. The move is a bit of a gamble for Premier Stelmach and his Progressive Conservative government, though. The changes mean the province’s income will drop by \$785 million in 2012/13.

The premier hopes that the long-term payoff from reducing royalties will make this drop in revenue worthwhile. Mr. Stelmach says the rollbacks will attract more investment to the province. That should help create 8,000 new jobs next year, and another 13,000 annually after that. This will help pull the province out of the recession.

### DID YOU KNOW?

Alberta’s economy is the most **volatile** of all the provinces. That’s because it relies on an industry where prices – and therefore revenues – are quick to change.

“This will help us use innovation to unlock our energy resources, create opportunities and jobs in communities large and small across our province and strengthen Alberta’s economic recovery,” said Premier Stelmach.

## CRITICS CONDEMN THE IDEA

Not everybody is happy with the rollbacks, however. Surveys show 46 percent of Albertans disapprove of how the government has handled the royalty rate changes. One economist says reductions now will make it hard for Alberta to maximize oil and gas revenues down the road.

“Oil and gas in the ground is an asset that belongs to us, belongs to future generations of Albertans,” said Andre Plourde. “If we produce it, get all the revenues and then spend it right away, we’re not transforming this **asset** into a financial asset to kind of ensure that we’ve got revenue flows down the road.”

## INDUSTRY APPROVES THE MOVE

Oil and gas producers, though, are pleased. They say cutting royalties is the right move and will bring business back to the ailing province – especially from oil and gas producers who have been looking to drill elsewhere.

“We went from drilling 1,000 gas wells to 90 gas wells between 2006 and 2009,” said Murray Edwards, vice-chairman of Canadian Natural Resources Ltd., “so that shows you the falloff in activity.” ★

## DEFINITIONS

**ASSET:** any item of economic value owned by an individual or corporation

**INFLATION:** a general and progressive increase in prices

**REVENUES:** money flowing in (income)

**ROYALTY RATES:** a percentage of the overall revenue that an individual or company might make in developing and selling a product (in this case, oil and gas)

**VOLATILE:** prone to sudden changes



## QUESTIONS

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### ANSWER THE FOLLOWING IN COMPLETE SENTENCES:

1. What are royalty rates?

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2. What changes to Alberta oil and gas royalties did the Stelmach government announce in early March?

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3. What decision did the Stelmach government make about royalties in 2007?

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4. Explain how the royalty rollbacks are expected to strengthen Alberta's economy.

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5. Explain why some economists are worried about the royalty rollbacks.

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6. Alberta's decision to reduce royalties to attract investment is similar to a store holding a sale to attract buyers. Write a sentence or two as though you were explaining this idea to a younger student.

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