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**Alberta raises oil royalties—but by less than meets the eye****[Get article background](#)**

WHEN Ed Stelmach, an unassuming farmer from rural Alberta, became the surprise choice of the province's ruling Conservatives to replace the abrasive Ralph Klein as provincial premier, political pundits found it hard to recall a single initiative he had championed in four previous cabinet jobs. This month, however, Mr Stelmach finally made his mark. He announced what he accepted was a controversial decision to raise oil and gas royalties, which average about C\$10 billion (\$10.5 billion) a year, by 20% from 2010.

Alberta is hardly alone among energy-producing territories in grabbing an extra slice of windfall profits. In the United States, the federal government this week announced a small rise in royalties on new contracts in the Gulf of Mexico, after a bigger increase in those for deepwater production earlier this year.

In Alberta two recent reports—one from the province's auditor-general and another from an expert committee—concluded that the province was not getting its fair share from the oil boom. The committee recommended raising the government's take from the oil sands, which now account for around half of the province's total oil and gas output, from 47% to 64%. That is less than the world average of 68% for similar deposits.

Even so, Mr Stelmach's move was a departure for Alberta, a province which doesn't blush at being called the Texas of Canada. The provincial government has long enjoyed a close, if not incestuous, relationship with the energy industry. The oil companies had lobbied hard to keep a generous royalty regime put in place a decade ago when oil was \$27 a barrel and Alberta's vast oil sands, whose heavy bitumen is expensive to extract, faced an uncertain future. The companies complained that higher royalties would slow the pace of development of the oil sands, potentially stalling the engine driving Canada's economy.

Those threats leave many Albertans cold. They have wearied of the soaring housing costs, strained public services, labour shortages and traffic jams brought about by the rapid development of the oil sands. Peter Lougheed, a former premier who inaugurated the Conservatives' 36-year grip on the province, backed the new royalties and called for a rethink of the pace of development.

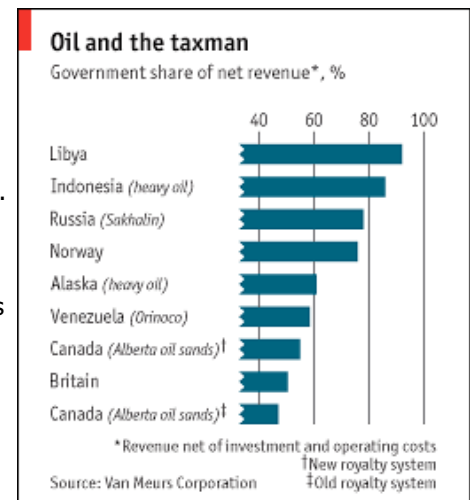
However, the new plan is less tough than it looks, according to Pedro van Meurs, who advises governments on royalty regimes. While royalties will now rise in line with the oil price, the government rejected the experts' proposals for other tax changes. The result, says Mr van Meurs, is that instead of the 64-66% cited by the energy department, the government's take from the oil sands will in fact be only around 55% (see chart).

It is also unclear whether Suncor and Syncrude, two companies which together account for almost half of the output from the oil sands, can

be persuaded to abandon voluntarily Crown contracts that entrench their low royalty rate until 2016. Mr Stelmach says this can be done, but he has not said how.

The reaction in the financial markets seemed to confirm that the energy companies were protesting too much. Shares in the main oil firms active in Alberta dipped only slightly following the announcement. The headline in the *Edmonton Sun*, a tabloid in Alberta's capital, summed it up nicely: "World didn't end for Big Oil".

Mr Stelmach's world may be under greater threat, unless he convinces Albertans that he did strike the best deal possible. Having come to power through a party convention rather than a popular vote, he is under pressure to confirm his mandate in a general election. But he is less popular than the folksy Mr Klein. No sooner had Mr Stelmach made his announcement than the provincial government launched an advertising campaign in which the premier said: "I made a commitment and I delivered". It looks as if the voters may soon be asked to give their view on that.



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