



## Chamber royalty review warnings proven correct

**July 15, 2008 eConnecting**

Throughout the royalty review last year, the Calgary Chamber of Commerce cautioned the provincial government that changes would undermine investor confidence and risk capital flight. This warning was confirmed by a Fraser Institute survey released at the Chamber on June 26.

Alberta ranked 29 out of 81 jurisdictions for low barriers to investment, a significant slip from 2007, when Alberta placed in 18th place.

"This year's survey results and the poor showing for Alberta can be traced directly to the Alberta government's decision to grab a larger share of oil and gas royalties," said Gerry Angevine, senior economist with the Fraser Institute and coordinator of the annual petroleum survey.

The province ranked well behind Saskatchewan and B.C., which ranked sixth and 19th respectively.

The two provinces have clearly benefited from Alberta's royalty review changes. As of June 2008, Saskatchewan year-to-date land sales were just over \$600 million, nearly 2.5 times the total for all of last year and B.C. had taken in \$694 million. This contrasts to Alberta's \$415 million, a sharp drop from \$705 million in 2007.

"Oil and gas projects require vast amounts of capital and long lead times. If governments are inclined to change the rules part-way through the process, the risk for investors increases and they are more likely to seek a more stable jurisdiction for investment," said Angevine.

Angevine believes Alberta is facing a similar image problem as Newfoundland and Labrador did in last year's survey, when it ranked 10th worst in the world for petroleum investment. Newfoundland's low ranking was attributed to a battle between with petroleum companies and Premier Danny Williams, who wanted an equity position in the Hebron oil project.

Changes to Alberta's royalty framework are expected to increase revenues by \$1.4 billion in 2010, 20-per-cent higher than currently projected revenues for that year.

"With the loss of investor confidence, it will be interesting to see if land sales and drilling and production activity actually decrease by a similar amount, providing no net benefit to Albertans," said Geoff Pradella, Vice-President of Public & Government Affairs of the Calgary Chamber of Commerce. "Thankfully, oil & gas prices have increased, which have helped to reduce, or mask the full impact that the royalty changes are having."

During the royalty review, the Chamber reminded decision-makers that more than 40 per cent of provincial GDP is derived from the oil & gas sector and associated spin offs and that changes would significantly impact small and medium sized businesses. The Chamber also warned that the timing of the proposed changes was risky in light of trends in the North American economy.

"Given the troubles in the U.S. and Canadian banking and lending sectors that have come on full force since the Royalty Review Panel hearings, and the emergence recently of Canadian junior gas producers being put up for sale, perhaps these warnings were prescient," added Pradella.



The Fraser Institute's Globe Petroleum Survey 2008 measured industry opinions of the investment climate of various oil and gas producing regions and ranked Canadian province and territories, U.S. States, and other countries according to barriers to investment. The survey examined a number of issues including fiscal terms (royalties and licensing agreements), taxation, cost of regulatory compliance, environmental regulations, political stability, and other concerns.

Companies surveyed represent about one-third of the industry's global spending on petroleum exploration and production.