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on the
Royalty Report

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Introduction

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This special issue of *Economic Commentaries* is concerned with the issue of royalty payments to the Province of Alberta. Ed Stelmach during his campaign to replace Ralph Klein as leader of the Conservative Party of Alberta and Premier of the Province, promised to conduct a public and transparent review of royalty revenues the province receives. A Royalty Review Panel was created to review whether Albertans are receiving a fair share from energy development. The Royalty Review Panel recently presented its final report to the Government of Alberta, concluding that Albertans are not receiving their fair share of revenues, and recommending that the share be increased by C$2 billion, or 20 percent, a year. All recommended changes are to apply to all participants (no grandparenting) in the industry. There has been criticism of the report from the energy industry and warnings that it will take its money and go elsewhere to the detriment of Albertans.

This issue of *Economic Commentaries* contains three pieces on the Royalty Review Panel's report, and on the criticism it received. Professor Ken McKenzie, Economics University of Calgary and a member of the Royalty Review Panel, presents some highlights of the Panel's Report. He argues that the Panel's recommendations simply would bring the system in line with international norms and reduce distortions between sectors. The regime would remain competitive internationally. Professor Nigel Bankes, Law University of Calgary addresses the question of 'grandparenting' the proposed changes, and concludes that the Panel's recommendations against grandparenting are well founded. Professors Curtis Eaton and Elizabeth Wilman, Economics University of Calgary point out that Albertans are the owners of the resource and that, even if there is a short term reduction in investment by energy companies, the resources are still available to generate future investments. Albertans will not lose the goose that lays the golden egg.

The Alberta Royalty Review Panel Final Report is available at http://www.albertaroyaltyreview.ca/.

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Of Kings and Royalties ...

Ken McKenzie

The Royalty Review Panel, of which I was a member, issued its report on September 18. The headlines have focused on the fact that the recommendations would yield an additional $2 billion in revenue, an increase of about 20 percent over the current system. The focus has been on the oil sands, where the Panel's recommendations would increase the government's share, or "take", of divisible income (what an oil project has left over after it has recovered all of its costs) from 47% to 64%.

Some people in the industry are SADD (shocked, awed, disgusted, disappointed), that the report conjures up "shades of Hugo", and that Calgary will become "Caracas on the Bow" in the province of "Albertastan."

I would like to encourage Albertans to put the rhetoric aside, read the report and arrive at their own conclusions. Don't take the industry's word for it, don't take the media's word for it, and don't take my word for it. Read the report and decide for yourself.

I would also like to highlight a few aspects of the report that have not been captured in the headlines.

The Panel undertook an extensive analysis of the fiscal system in Alberta relative to other comparable jurisdictions internationally. While the headline number of 20 percent is not an insignificant increase in royalties, the recommendations would only move Alberta closer to the fiscal take of comparator jurisdictions in the rest of the world. This is because Alberta's fiscal terms have been favourable to the industry for some time; the recommendations would allow us to catch up.

But surely having a fiscal regime that is attractive and internationally competitive is a good thing? The Panel agrees. And after the recommendations are implemented Alberta would continue to compare very well with relevant international comparators.

Wood Mackenzie, a highly respected British energy consultancy, recently released a study analyzing the impact of the Panel's recommendations. The consultancy analyzed the fiscal regimes of 100 jurisdictions. The current Alberta oil sands regimes ranks as the eleventh most favourable in the world. If all of the recommendations of the report are implemented, the report indicates that the oil sand terms would still rank 44 out of 100 countries in terms of attractiveness. The proposed 64% government take remains well below the average government take of 74% calculated by Wood Mackenzie for the other countries in the study (this take includes government equity participations in many countries). The Wood Mackenzie study confirms the findings of the Panel in this regard.

In 1995 the National Oil Sands Task Force recommended a royalty regime to encourage a fledgling industry. At that time the task force indicated that a 60 percent total government take was reasonable. Over the years that take has eroded, to its current level of 47 percent. The recommendations would restore the original intent, and for a sector that is decidedly more mature and operating in an economic environment that is more attractive than it was ten years ago.

For conventional oil and gas the Panel has recommended a major simplification of the royalty formulas. This simplification would make the royalty rates applied to conventional oil and gas more sensitive to changes in prices and costs. In particular, as prices rise the royalty rate would rise, and when it falls, so too would the royalty rate. This sensitivity to prices is virtually non-existent in the current system because the royalty rate reaches its maximum at very low prices, and the rate structure has been effectively flat, and unresponsive to prices, in recent years. While the recommendations would result in an increase in the government's share of conventional oil and gas production overall, low production, high cost, wells would in fact pay lower royalties – the extra money from conventional oil and gas would come from highly productive, highly profitable wells.

For example, in 2006 the average gas price in Alberta at the wellhead was $6.20/GJ. At this price wells that produce less than 130 Mcf/day of gas would have faced a lower royalty rate under the Panel's proposals than they faced under the current system. In 2006, there were about 144,000 gas wells in operation. Of these, 122,000 (82 percent) had production rates below 130 Mcf/d.

During 2007 the average gas price in Alberta is expected to be less and royalty rates under the proposed terms would therefore be even lower. Also the percentage of wells with a lower royalty rate would be higher under the proposed royalty terms. This will alleviate the short term downturn that is experienced for conventional gas. At Can $5/GJ the royalties on almost all wells would be lower under the proposed system.

However, under higher gas prices the royalties will be higher and the number of wells with lower royalties will be less. At Can $7/GJ royalties would be higher under the Panel's recommendations on all wells.

For the oil sands the Panel has recommended that the basic structure of the regime implemented in 1997 be retained. This is the so-called (R-C) system. Under this system companies pay a 1 percent gross royalty rate on revenue when production begins, and a 25 percent royalty rate on net cash flow, or revenues (R) minus costs (C), after the project reaches payout. Payout occurs when cumulative revenues exceed cumulative costs, including a return allowance.

The Panel has recommended that the 1 percent pre-payout gross royalty rate be retained, but that the post-payout net royalty rate be increased to 33 percent from 25 percent. It is important to understand that the higher net royalty rate would be paid on net cash flow (R-C) only after the project has completely recovered all of its operating and capital costs. In other words, a project pays the higher rate on net cash flows only after it is making money.

As will be discussed below, based on cost data obtained from international experts and consultants the Panel took full account of the cost pressures facing oil sands. The (R-C) system is perfectly designed to do this. If costs go up, as they have significantly over the past few years, oil sands royalties will go down. The Panel's recommendations are robust to a wide range of cost scenarios. This sensitivity to costs is an extremely important feature of the regime that the Panel recommends be retained.

The Panel has also recommended the imposition of a new tax on oil sands – the Oil Sands Severance Tax (OSST). This tax would be imposed on gross revenue (net of royalties) at a rate that is sensitive to prices. The recommended OSST would kick in at an oil price of $40/b and increase by one percentage point for every ten dollar increase in the price of oil, to a maximum of 9 percent when the price of oil is $120/b.

The OSST reflects the view that oil companies should pay for every barrel of oil they extract. Severance taxes are commonly used internationally to do this, and the recommended rates are low by international standards. Moreover, the fact that the rate is sensitive to prices would make the system responsive to the changes in the economic environment.

To see how the recommendations regarding the oils sands effect the economics of an oil sands project, consider a simple example. As mentioned above, there are two key parts to the recommendation concerning oil sands. The first part is the introduction of an Oil Sands Severance Tax (OSST) on a sliding scale sensitive to the price of oil.

Say the price of oil will average $60 per barrel for the foreseeable future (which is not out of line with many forecasts). Oil sands operations don't actually produce oil, but rather produce bitumen. Bitumen sells at a significant discount to oil. This discount fluctuates quite a bit, but averages somewhere around 50%. So when the price of oil is $60 the bitumen price is about $30. At this price, from the point of view of an oil sands project, the OSST is equivalent to a 3%, or $0.90, reduction in the price of bitumen, from $30 to $29.10.

The second part of the recommendation is an increase in the post-payout royalty rate on net cash flow by eight percentage points, from 25% to 33%. What does this mean? After an oil sands project has sold enough oil (actually bitumen) to more than recover all of the costs of constructing and operating the project – in other words, the project reaches payout – relative to the current system this is equivalent to an eight cent on the dollar decrease in the net cash flow (revenue minus all costs) generated by the project.

This additional eight cent on the dollar reduction in cash flow would not occur for some time after production begins. How long depends on the cost of constructing and operating the project. Several cost scenarios were analyzed by the Panel. For our purposes, let's consider a scenario under which it takes five years to reach payout. So, the eight cent on the dollar decrease in net cash flows does not begin until five years after production starts.

Not only that, but after payout has been achieved the impact of the OSST actually declines to the equivalent of only a $0.60 reduction in the price of bitumen, or a price of $29.40. This is because the net royalty would be deductible from the OSST after payout under the Panel's recommendations.

Let's review. The impact of the Royalty Review Panel's recommendations for the oil sands are the equivalent of a less than one dollar decrease in the price of bitumen, from $30 to $29.40, and an eight cent on the dollar decrease in net cash flow starting about five years after production begins.

The Canadian Association of Petroleum Producers (CAPP) claims that the Royalty Review Panel recommendations are flawed because of incorrect assumptions about costs. This is not the case. Detailed information on costs was examined on a well by well as well as project by project basis to reflect average costs and the range of costs. This information was obtained from royalty filings, company reports, and checked against the cost figures of international experts and consultants.

CAPP and others are only focusing on the highest costs projects and are asserting that these high costs are representative of all the projects. Moreover, it is not unusual for CAPP to lower cost estimates subsequent to their initial announcements. For instance, in December 2006 CAPP provided an estimate for 2004 F&D (finding and development) costs of $2.45 per Mcf, by June 2007 this number had dropped to $1.80 per Mcf.

Some in the industry have claimed that current oil sands project costs are US $100,000 per barrel peak capacity, which is indeed higher than the base case analyzed in the Panel's report. However, if this is in fact the case, such projects would only generate a 6% IRR under current fiscal conditions (this is based on an oil price of $50 per barrel of synthetic crude oil). No one would invest in such a project.

There is no question that the cost of oil sands operations have increased significantly – as much as doubled, or more, over the last four years. This was accounted for in the report. However, these cost pressures are not unique to Alberta. Offshore rig rates have more than tripled during the same period. International deep water rig rates have now increased to $500,000 per day. A single exploration well in deep water may cost as much as $80 million. It may take five exploration wells or more to discover an average field. Average discoveries are now 100 million barrels. The average capital costs for such a field are $18 per barrel and average operating costs are $8 per barrel.

This means that the fully risked exploration, development and production costs per barrel of an average oil field in the deep waters are now similar to the costs to develop, extract and upgrade a barrel of synthetic oil in Alberta.

Despite, these strong worldwide cost increases 20 governments have decided to increase the government take over the last few years. These governments include the USA (Federal, Gulf of Mexico), the United Kingdom, Ireland, Denmark and Alaska. Furthermore companies have voluntarily offered higher government takes in bidding rounds as happened in Libya, India, Nigeria and Trinidad and Tobago.

So, the claim that the Panel used faulty cost data for the oil sands is demonstrably wrong. But, guess what? It doesn't really matter! (OK, it matters, but not in the way that CAPP is claiming).

Let's say, for the sake of argument, that CAPP is right, and the Panel underestimated the cost of building an oil sands project. In fact let's say that the cost of building an oil sands project is twice as high as assumed by the Panel. This simply means that it will take twice as long for the project to reach payout and begin paying the extra eight cents on the dollar on net cash flow – ten years instead of five years.

Costs certainly matter. They affect the value and viability of oil sands projects. Moreover, if costs are higher economic rent declines, payout is postponed, post-payout net royalties are lower, and government revenues from the oil sands are lower.

So yes, costs matter, but they matter with or without the Panel's recommendations. And they don't matter for how the Panel's recommendations affect the economics of an oil sands project.

It all boils down to the equivalent of about sixty cents off the price of bitumen and an additional eight cent on the dollar decrease in net cash flow beginning five or ten years down the road after production begins.

How do the recommendations affect the standing of the oil and gas sector relative to other sectors in the economy? The accompanying table presents marginal effective tax rates (or METRs) on capital for energy and non-energy investments in Canada, Alberta and Texas. Marginal effective tax rates provides an indication of the impact of the fiscal regime on investment. For the energy sectors, figures are presented for the corporate income tax (CIT) alone and for CIT plus royalties.

The first thing to note is that the oil and gas sector is favourably treated under the CIT; the CIT only effective tax rates are much lower than the non-energy sector. This is true in both Alberta and Texas.

When royalties are included, not surprisingly the effective tax rates increase to reflect this. For conventional oil and gas the increase is significant. In Texas the royalty inclusive effective tax rate is more than double the effective tax rate on capital in the non-energy sector, and four times higher than the CIT only rate. This is not unusual, and simply reflects the fact that energy resources generate location specific rent which justifies the imposition of royalties, and which in turn leads to a higher effective tax rate on capital. Almost w\Without exception around the world the royalty inclusive effective tax rate in the energy sector is higher than other sectors.

In Alberta, for the current system the royalty inclusive effective tax rate on conventional oil and gas is also higher than the rate for the CIT only case. As with Texas, it is higher than the rate for non-energy sectors in Alberta, but note that it is about the same as the rate for the non-energy sector in Canada.

For oil sands, the impact of royalties on the effective tax rate is lower. This is because of the features of the (R-C) system. Moreover, integrated oil sands (which include an upgrader) face a much lower effective tax rate, as royalties do not apply to upgrader production.

The Panel's recommendations would increase the royalty inclusive effective tax rate on investment in conventional oil and gas quite significantly. However, note well that the rate would remain significantly lower than Texas, a reasonable comparator for conventional oil and gas.

The recommendations would also increase the effective tax rate on investment in some oil sands projects. For non-integrated oil sands the rate would increase to slightly above the non-energy sector rate for Canada and remains significantly below Texas. And remember, this includes both CIT and royalties.

For integrated oil sands the effective tax rate under the recommendations would actually decline, and remain significantly below non-energy sectors.

This is because of the 5 percent royalty credit for upgrader expenditures recommended by the Panel.

There is no question that relative to the current system the Panel's recommendations would increase both government take and the effective tax rate on capital for some parts of the oil and gas sector. Relative to the current system this suggests some dampening of investment. However, it is clear that the current regime has distorted investment in favour of oil and gas, and the oil sands in particular, for some time.

The rebalancing suggested by the Panel would bring the system in line with international norms and reduce distortions between sectors. The regime would remain competitive internationally. Investment in integrated oil sands operations which include an upgrader would actually be encouraged, reflecting the Panel's view that the long term interests of Alberta are served by an increased investment in value-added activities.

Marginal Effective Tax Rates on Capital

	Canada	**Alberta**		**Texas**
		Current	**Proposed**	
All Non-energy Sectors	28.0	19.0	n/c	23.2
Conventional Oil and Gas	n/a			
CIT Only		6.6	6.6	11.3
CIT + Royalties		30.6	42.7	47.3
Non-integrated Oil Sands	n/a			n/a
CIT Only		13.5	13.5	
CIT + Royalties		16.8	31.8	
Integrated Oil Sands	n/a			n/a
CIT Only		13.5	13.5	
CIT + Royalties		14.9	14.1	

Note: Corporate income tax (CIT) reflects the elimination of the ACCA for both the current and proposed systems in Alberta.
Source: Our Fair Share: Report of the Alberta Royalty Review Panel.

Alberta's Royalty Review and the Law of Grandparenting

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The Royalty Review Panel made it quite clear in its Report that existing projects should not be protected from the proposed changes. In other words it recommended in very strong terms that there should be "no grandparenting". In recent days this position has been the subject of considerable comment and reaction. Some (e.g. Murray Edwards) seem to suggest that the refusal to grandparent constitutes an interference with vested rights and have further suggested that, if implemented, the decision not to grandparent will be open to challenge in the courts. Deborah Yedlin in comments on CBC Radio on September 26 seems to concur and tells us that the panel's refusal to grandparent is a "non-starter" and "has to be taken off the table". Others have suggested that this may be a matter on which the government might indeed seek to "pick and choose" i.e. to accept the panel's recommendation on a go-forward basis but not to apply the recommendations to existing projects. And finally we are told that the American Embassy has been warning us that Alberta should not seek to change arrangements for existing projects.

In sum, the grandparenting issue is emerging as one of the critical issues in the debate on the implementation of the recommendations of the Review Panel. In this comment I propose to examine: (1) the reasons that the panel gave for not grandparenting, (2) the law on grandparenting, and (3) the (potentially) unique position of the Syncrude and Suncor projects.

Why did the panel reject grandparenting?

The panel rejected grandparenting on the pragmatic grounds that "almost nothing would change" if the proposed changes do not apply to existing projects. And, given the panel's further assessment that Albertans have not been getting a fair share of the available economic rent for some years, it readily reached the conclusion that this was unacceptable. The panel dealt head on with the argument that royalty rates should be treated as if they were fixed for the life of the lease and the argument that the industry would no longer see Alberta as a good or safe place to do business if royalty rates were changed "mid-course". As to the first, the panel concluded that the claim could not be supported in law or practice, and, as to the second, it observed that many jurisdictions had increased the government's share of the take with (except in the egregious case of Venezuela) little impact on their attractiveness to investors.

The law on grandparenting

With the exception of the Syncrude and Suncor projects, all conventional oil and gas projects and all oil sands projects that occur on Crown\public lands in Alberta are being developed on the basis of standard form Crown leases or licences. Each of these leases contains a clause reserving to the Crown a royalty payable at the rate prescribed by the relevant regulations. The leases state explicitly that the royalty payable by the lessee is not the royalty payable at the rate prescribed by the regulations on the date that the lease was issued but instead the royalty rate prescribed from time to time by the regulations.

In other words, with the exception of Syncrude and Suncor, no Crown lessee has any legal basis to argue that it has a right to pay only the royalty that was prescribed on the date that it acquired its lease from the Crown, or the royalty payable on the basis of the regulations as they stood the day before the Panel issued its report. And no Crown lessee has any legal basis for arguing that the Crown will breach its contracts with industry by "changing the terms of the deal" if the Crown follows the panel's recommendation and refuses to grandparent. The deal that the lessees individually signed up for was a deal that allowed the Crown to change the royalty rate from time to time. Now one might admit that if the government proposed to change the royalty rate to levy a royalty that was so high that no producer could profitably engage in oil and gas operations, or if it was proposing to take more than the available economic rent, then it might be possible for a lessee to argue that that was not the sort of change that was in the minds of the parties when they entered into these arrangements. But that is not this case. If the charts and tables prepared by the panel are to be believed, then the proposals on conventional oil will simply result in the "government take" in Alberta being repositioned within the state royalty tables from the bottom to the middle. And the past experience of the industry, as so well demonstrated by Frank Dabbs in his guest column in the Calgary Herald on September 21, suggests that this is exactly what industry might be taken to have understood when it bid on the lands (regular reviews every ten years or so after which the new regime is implemented on an across the board basis). And the proposal with respect to oil sands remains (with the exception of the proposed severance tax) fully sensitive to the costs (including costs of capital) assumed by industry in developing these assets.

Industry players entering into these leases do so with their eyes open. A lessee bidding on Crown lands is not an illiterate consumer entering into an unusual arrangement and lacking access to competent legal advice. And the Crown is entitled to assume that a bidder at Crown land sales reads and understands the lease terms and that a bidder will discount what it is prepared to pay for a Crown lease by a risk factor that takes account of a series of projections including: the risk of drilling a dry well, the risk that oil and gas prices will not turn out to be as high as projected, and the risk that the government may increase its share of the royalty take.

Lessees accept these one-sided arrangements because, in global terms, they look fair and reasonable. Industry accepts that every government has a responsibility to protect the interests of its citizens and understands that a variable royalty clause such as the one Alberta uses is a common way of doing so. It allows governments to share in any unanticipated changes in the market value of the resource. At the same time, industry anticipates that when it enters into an arrangement such as this in a democracy, that there will be practical and political limits on the extent to which a democratic and accountable government, subject to intense lobbying from a resident industry and regular elections, will actually exercise its power to change royalty terms and conditions. In particular, an open, transparent and accountable political system will make it difficult for a government to change terms in an arbitrary fashion. But there is nothing arbitrary about the "no grandparenting" proposal and Premier Stelmach should be applauded for launching the most open and transparent royalty review that Albertans have ever seen.

But what about Suncor and Syncrude? It is possible that these two projects and their proponents may be in a special position and the Panel hints at this in its report. These projects were originally developed on standard form leases with the type of royalty clause described above, but then, at some point, the Government (essentially to save these projects from collapse and along with it the nascent oil sands business) entered into a Crown agreement which provided that the government would waive its right to prescribe a royalty payable from time to time and instead would levy only the royalty payable under the terms of these agreements. In other words, the terms of the contract (the Crown Agreement) fixed the royalty that was payable for the duration of the contract instead of permitting the Crown to unilaterally fix the terms of the royalty from time to time. When the Crown decided to abandon individual project negotiations for the oil sands and to put in place the existing and so-called "generic" royalty regime, the Crown negotiated transitional arrangements (i.e. partial grandparenting) with Suncor and Syncrude setting out the terms under which these two projects would be brought under the generic royalty arrangements. And it is entirely possible that the terns of those transitional arrangements will afford Suncor and Syncrude a right to some, or even complete, grandparenting. The answer to that question will turn on the precise terms of those contracts but it is possible that Suncor and Syncrude will have a distinct contractual entitlement (for which they bargained) that the government cannot unilaterally set aside. In other words, government may have to grandparent these two projects and can only avoid doing so by passing explicit legislation which may well be characterized as punitive and as an expropriation. Thus these two projects may be in a special position; but that is no reason for extending to the rest of the industry the benefits bargained for and conceded to these two early entrants into the technologically challenging oil sands business.

In sum, I for one, fully support the Panel's proposal that the proposed changes to the royalty regime should apply to incumbents as well as new entrants. The panel's proposal makes good policy sense and is completely in accordance with the province's legal and moral rights. In fact, I think that if we exempt incumbents from the proposed changes then we are giving existing lessees (for free) something that they did not bargain for: a stabilization clause in the contract. And if the government does elect to protect incumbents from the proposed changes then I think that this government will simply have demonstrated that it is a government that is accountable not to the ordinary people of Alberta but to the elite of the industry.

And finally, I suspect that Suncor and Syncrude may well be in a different position. They may be contractually entitled to at least a degree of grandparenting by virtue of specific agreements with the Crown.

Of Kings, Royalties, Geese, and Golden Eggs

Elizabeth Wilman and Curtis Eaton

There has been much discussion of the Alberta Royalty Review Panel's Report, "Our Fair Share". Some of the discussion is productive, but some is definitely misleading. The Panel recommends a 20% increase in Albertans' share of the surplus from energy development in Alberta. A common criticism from industry is that increasing Albertans' share will decrease the industry's share, making Alberta a less desirable place to invest and do business. As it is sometimes put, an increase in royalties to Albertans will kill the goose that laid golden eggs. There are two points of confusion introduced by allusions to the fable of the goose that laid the golden eggs.

- Is the goose the industry that develops the resources or is it the resources themselves?
- Who owns the goose, anyway?

Although the Panel did an excellent job of explaining the concept of royalties, and related ideas such as rent and ownership, these concepts have been deemphasized in some industry comments. The concept of royalties comes from the time when mineral resources were part of a kingdom possessed by a monarch. The monarch could grant a right to exploit a mineral resource that was part of that kingdom. In return the monarch was entitled to collect payment for the right granted: a royalty or payment to the Crown. In Alberta the people of the province have replaced the monarch, but they are still the owners of the resources and entitled to payment for the right to exploit them.

Industry spokespersons have referred to the industry as the goose that lays golden eggs for Albertans. The story is one of Aesop's fables. Owners of a goose, that each day laid a golden egg and hid it in the hay, thought that sorting through the hay to find one golden egg per day was not making them rich fast enough, so they decided to kill the goose. They imagined the goose to be made of gold, and expected to reap all of the gold at once, rather than waiting. They were sorely disappointed -- the goose was not made of gold, and they lost their daily eggs. Industry spokespersons that allude to this fable are implying that industry is the goose, and that higher royalties will drive the industry, the investment it attracts, and the jobs it provides, out of Alberta, leaving Albertans with no royalties to collect (no eggs).

The usual interpretation of the fable in a natural resource context is very different. It relates to the idea of sustainability. In the case of a renewable resource such as a fishery, protecting the fish stocks (the goose) protects future harvests (the golden eggs), thus ensuring the continued well-being of the communities that depend on the resource. Over fishing depletes the stock, thereby diminishing future harvests and jeopardizing well-being. The depletion of the North Atlantic Cod fishery is an example. Of course, Alberta's fossil fuel resources are not renewable, but if the owners' royalties from the exploitation of these resources are invested in other forms of capital, the well-being of Albertan's (the real golden eggs) can be sustained.

The industry finds the eggs and carries them to market, often a difficult and costly task, and it is entitled to be compensated for its efforts. And if royalties were set high enough to drive energy companies out of Alberta, energy resources would not be developed and marketed. But, even this would not obliterate our energy resources, nor destroy their future value. While it is necessary to develop, produce, and market our energy resources in order to obtain their value, the moral of the fable is to manage these resources so as to sustain the well-being of Albertans. While royalties that are too high will dissuade energy companies from developing Alberta's energy resources, royalties that are too low will cause them to be exploited too quickly, increasing costs in the industry and placing stress on the physical and social infrastructure, without much return to their owners, Albertans. With royalties that are too low, in the end the resources will be depleted, and Albertans will have little to show for having owned them. It is necessary not only for the Government of Alberta to collect royalties on behalf of the people of Alberta, but also to use them wisely via investments that sustain the well-being of the owners. This would mean, among other things, investments in financial assets that will yield a return for Albertans now and, especially, in the future. In the end, Albertans must have something to show for the resources which they own.

The Review Panel takes great pains to avoid royalties that are too high and would unduly discourage energy investment, development, and production. Its proposals are specifically designed to keep Alberta competitive. It also recognizes that Albertans do not want to waste their resources, ending up with little to show for them. This is a delicate balancing act, one that the Review Panel has performed well. Certainly, the proposals will not lead to any dead geese, and neither Albertans nor their Premier should allow themselves to be frightened by that prospect.

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