Alberta Federation of Labour

PARKLAND INSTITUTE

Parkland and AFL Backgrounder

Alberta Giving Up Billions in Royalties in Wake of Northern Gateway Pipeline

Industry projections show bottom of the barrel royalty rates

New research by the Parkland Institute and the Alberta Federation of Labour shows Albertans are forecast to give up billions in royalties over the lifespan of the Northern Gateway Pipeline.

The Canadian Energy Research Institute, funded in part by the oil industry, has projected royalty payments, and industry costs and revenues in the oil sands from 2011 to 2045. Their base-case scenario assumptions include the approval and construction of the Northern Gateway pipeline.

From this data, the Parkland Institute and Alberta Federation of Labour calculated billions in lost royalties.

The study found the following:

- CERI projects $1.2 trillion in oil sands royalty payments to Albertans.
- While this appears to be a substantial figure, royalties must be assessed relative to industry revenue. Oil production is a lucrative business, and one can only assess a fair share for the public when considering the overall value produced by a project or industry.
- In 2011, only 10% of the revenue produced in the oil sands went to Albertans through royalties. CERI's model shows Albertans' share of revenue slowly rising to a peak of 23% in 2027 and then gradually declining. Over the 35-year span, Alberta's share averages only 18%.
- During Peter Lougheed's tenure as Premier (1971-1985), Alberta's royalty target was to collect 35% of overall industry revenue. As modest as the target is by international standards, Albertans would be much better off if it was being met today.
- The billions left on the table are staggering. While Alberta is losing about $11 billion/year by not capturing the Lougheed-era target right now, that figure rises to $56 billion/year by 2045.
- The cumulative loss of royalties by not achieving Lougheed-era royalty targets, according to industry's projections, is $997 billion between 2012 and 2045.
- According to CERI's figures, if Alberta met the Lougheed-era target of 35% of revenue over the next 35 years the Heritage Fund could be as large as $1 trillion by 2045.

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A Trillion Dollars on the Table: It could be in the Heritage Fund

If Lougheed-era targets (35% of industry revenues captured by royalties) were achieved between now and 2045, Alberta could have over $1 trillion in the Heritage Savings Trust Fund, not including any income earned through investment.

A savings fund of this magnitude would generate significant and sustainable income for the province.

Assuming the additional revenues from higher royalties were put into the Heritage Savings Trust Fund, a simple 5% rate of return would earn Albertans a total of $609 billion in interest alone by 2045.

At over $47 billion per year by 2045, this interest would nearly match CERI's projected royalty payments. That is, Alberta would have nearly $50 billion per year of sustainable funding to spend on health care, education, infrastructure, and social services, without reducing the principal of the Heritage Fund.

Methods and Sources

Data was taken from Canadian Energy Research Institute, CERI Paper #128, Canadian Oil Sands Supply Costs and Development Projects, 2011-2045, released March 2012.
http://www.ceri.ca/images/stories/2012-03-22_CERI_Study_128.pdf

Data on industry revenues underlying the above report was taken from personal correspondence between Regan Boychuk and CERI officials, June 13, 2012.

Issued by the Parkland Institute and Alberta Federation of Labour
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