Alberta Federation of Labour

Backgrounder

Oil Sands Royalties

The Document

The Alberta Federation of Labour obtained an internal government report entitled, "Oil Sands Fiscal Regime Competitiveness Review," dated April 29, 2011, which details the state of affairs in Alberta's oil sands. This report was not published.

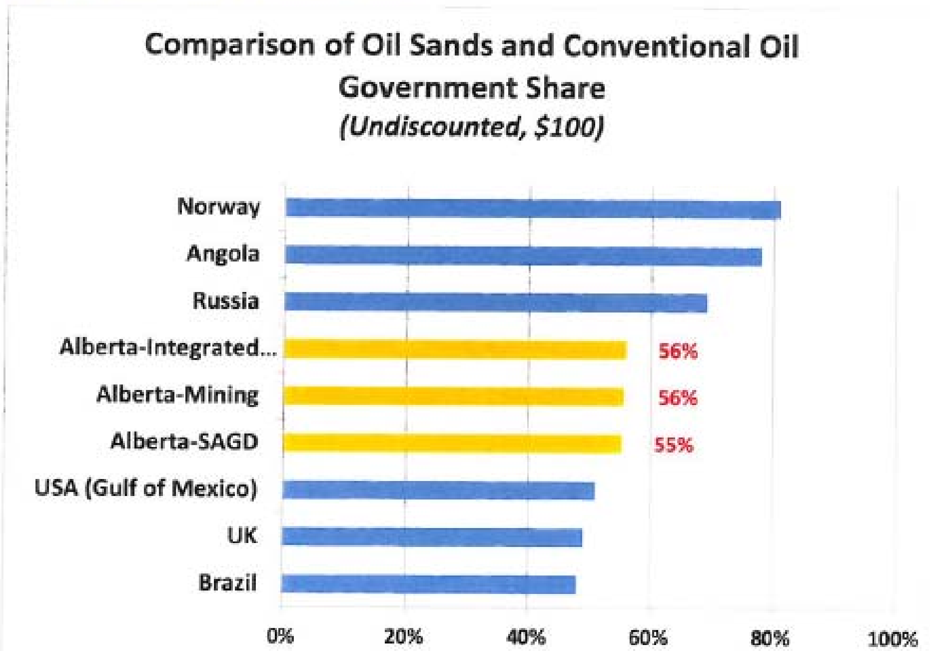
A full copy of the document can be found here: http://www.afl.org/index.php/Download-document/802-Oil-Sands-Fiscal-Regime-Competitiveness-Review.html

Albertans' Share of Oil Sands' Wealth

The report shows the levels of government share (a combination of royalties and taxes) for Alberta and a number of comparable jurisdictions.

According to the report, "[t]he chart below compares the share of the government take for a number of competing jurisdictions. The list of comparable jurisdictions was based mainly on previously identified jurisdictions in the 2007 Royalty Review, including the two new additions of emerging comparable jurisdictions, Russia and Brazil. The results illustrate that, under the current royalty and tax system, the share of government take from Alberta's oil sands projects is in the middle pack [sic] of the jurisdictions considered, with estimated shares of government take around 55 per cent at US$100 oil."

Figure 17 Government Share Comparison



Source: Wood Mackenzie Petroleum Fiscal Systems, 2010
UK share does not reflect the latest tax increase.

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The above chart shows Alberta's share of oil sands wealth to be well behind that of Russia, Angola and Norway.

Government share of oil wealth (royalties and corporate taxes combined), 2010

Jurisdiction	Share	Difference between Alberta and other jurisdictions
Alberta	55 – 56 per cent	n/a
Russia	69 per cent	13 - 14 per cent
Angola	78 per cent	22 - 23 per cent
Norway	81 per cent	25 - 26 per cent

The report notes that Alberta offers "extreme value" to investors because of the size of the resource and the relative political stability here (emphasis added):

> *Considering the magnitude of the oil sands resource, oil sands projects are gigantic compared to conventional oil projects. Some oil sands mining projects are able to maintain high production for four or five decades … It is clear that the scales of oil sands projects are incomparable with only some ultra deep projects being close to the size of SAGD. Therefore, a stable political system, such as Canada's and Alberta's,* ***offers an extreme value to this long lasting resource by reducing the otherwise high risk premium in some regions of unrest.*** *Doubtlessly, with the stable political environments in Canada and Alberta, the value of oil sands resource is further amplified.*[1]

A Note about the "Government Share" Measure

The "government share" measure is a combination of royalties and corporate taxes and is used as a benchmark for how much of the value of the product the public receives. It is used because it is measurable, commonly understood and comparable to other jurisdictions.

The 2007 Royalty Review used this measure in determining that Albertans were not receiving their fair share from energy development.

What would be a 'fair share' for Albertans?

In 1995, the National Task Force on Oil Sands Strategies recommended a 60 per cent target in terms of government take from the oil sands. This task force was initiated by the Alberta Chamber of Resources.

A reasonable sharing of the upside marginal revenue is needed to provide balance in sharing benefits. Thus the retention of a combined tax and royalty marginal rate in the range of 60 per cent is reasonable.[2]

The 2007 Royalty Review Panel recommended a total government take of 64 per cent from Alberta's oil sands.[3]

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[1] *Freedom of Information* request 2011-G-0054, Part 3, Page 1368

[2] National Task Force on Oil Sands Strategies of the Alberta Chamber of Resources, "A Recommended Fiscal Regime for Canada's Oil Sands Industry," Spring 1995, page 9

[3] Alberta Royalty Review Panel, "Report of the Alberta Royalty Review Panel," September 18, 2007, page 11

The Alberta Federation of Labour estimates that the province would gain $262 million this year if we were to obtain the 60 per cent target recommended by the 1995 National Task Force on Oil Sands Strategies.

If the province were to receive the 2007 Royalty Review Panel's recommended share of 64 per cent, the province would gain approximately $504 million in this year.

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