

**Oil Patch Taxation Controversy:
Mixed Feelings from the Business Panel**

**BDO Dunwoody CEO/Business Leader Poll
by COMPAS in the Financial Post
for Publication October 15, 2007**



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1.0 Introduction

The Alberta government launched a special advisory panel to explore modifications to the oil and gas taxation regime. Its recommendations of a sizeable increase in taxes prompted major oil patch players to warn of cancellation of their planned investments and financial analysts to warn of damage to Alberta's reputation as a safe place to make investments.

The COMPAS panel's response might be best characterized as a case of "plague on all your houses," as shown in table 1a. Panelists

- tend to think that a modest slowdown in Alberta' oil economy might bring some stability to the province and the country,
- tend to believe that the proposed jump in taxes may nonetheless be harmful to Alberta's reputation as a place for investments,
- tend to forecast that oil investments in the province might slow down slightly if the proposed tax regime is adopted,
- are divided in their opinions about whether "the oil patch would adjust to a new royalty regime without significant decreases in investment," and
- are slightly more apt to reject rather than embrace the idea that "Albertans are not getting their fair share of the profits from oil," and
- tend to reject rather than embrace the idea that "the proposed royalty regime would do much harm to both Alberta's economy and Canada's as a whole."

While far less perturbed about the proposed tax regime than oil and gas players and financial analysis, the CEOs and business leaders on the COMPAS panel are nonetheless not impressed with the way the Alberta government



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handled the issue. Premier Stelmach earns a failing grade of 49% for his performance on the issue, as shown in table 1b.

These are the key findings from the current web-survey of the panel of CEOs and business leaders undertaken for the *Financial Post* under sponsorship of BDO Dunwoody LLP.

Table 1a: (Q1) As you know, there is controversy brewing over proposals to increase royalties on oil sands projects to \$ 2 billion, an increase of about 50%. The proposal for an increase came from an Alberta government advisory panel in a report called “Our Fair Share.” On a 7 point agree-disagree scale where 7 means agree strongly and 1, disagree strongly, how much do you agree with the following viewpoints? [RANDOMIZE]

A modest slowdown in Alberta’s oil economy would bring some stability to Alberta society and the Canadian economy								
Mean	7	6	5	4	3	2	1	DNK
4.9	16	18	29	15	7	7	2	6
The talk of a big jump in royalties jeopardizes Alberta’s reputation as a stable place for investments, as summarized by Deutsche Bank in the phrase “Bolivarian Republic”								
Mean	7	6	5	4	3	2	1	DNK
4.3	11	19	19	14	8	11	12	6
Canadian Natural Resources Ltd., EnCanada Corp, Conoco-Phillips, Devon Energy Corp., Statoil ASA (Norway), Petro-Canada, and other oil and gas companies forecast that their and other oil companies’ investments in Alberta will be reduced by billions of dollars								
Mean	7	6	5	4	3	2	1	DNK
4.2	12	14	16	16	13	17	5	9
The oil patch would adjust to a new royalty regime without significant decreases in investment								
Mean	7	6	5	4	3	2	1	DNK
4.1	9	14	25	14	11	11	11	6



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Albertans are not getting their fair share of the profits from oil, a view taken by the Alberta government's advisory panel on oil and gas royalties								
Mean	7	6	5	4	3	2	1	DNK
3.8	8	9	18	22	10	15	12	6
The proposed royalty regime would do much harm to both Alberta's economy and Canada's as a whole								
Mean	7	6	5	4	3	2	1	DNK
3.8	11	11	15	13	13	16	15	7

Table 1b: (Q2) On a 100 point performance scale, what score would you give Premier Stelmach on this matter?

Mean	49
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Verbatim comments:

While I don't think that the industry as a whole will be crippled by the new proposed royalty tax, I am concerned that it will be very punitive to the gas sector, where it has the potential to cause long term damage. The bottom line is that it would be prudent for the government to review this one more time before they implement anything. I'm also somewhat surprised that the Federal Government hasn't said much because the increase in royalty taxes will reduce [an] oil company's profitability and in turn [reduce] their federal tax payments.

Right or wrong, I think there will be a lot of pressure put on Premier Stelmach to go along with the report to get elected in the next election. Long term, it is my opinion that this will hurt Alberta.

Alberta's vaunted overheated economy is mostly due to Tar Sands activity. The conventional oil activity is not significantly greater than historical levels as measured by



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number of wells completed and the natural gas activity is significantly less than historical levels.

About 50% of the drilling fleet is inactive resulting in the loss of thousands of jobs and the Natural Gas Compression industry is going through its third set of layoffs resulting in the further loss of thousands of jobs. This downturn is a result of normal market forces. Any increase in costs that will result from increased royalties will aggravate an already bad situation.

Unfortunately, the massive oil sands activity tends to overshadow the conventional oil and gas activity thus making things look better than they are.

Certainly by looking at the balance sheet of some of the companies you mention, they are not going to hurt too much if this or a similar tax is applied.

The problem in changing existing arrangements, such as the royalty programs, is that Alberta could be viewed in the same light as other countries that change the rules.

There are other ways to get more money from the oil companies and that is by changing the tax structure or depletion allowance rates. Regardless, oil companies would continue to invest as there is a profit to be made.

At present, the oil companies waste a huge amount of money, similar to the pricing obtained by the U.S. Military for services and equipment. This could be reduced easily with little overall effect to the economy. It is interesting that they used to do all the investing at under 25.00 a barrel but suddenly require more than 50.00 to break even now. Costs in the "real" commercial construction world have not doubled, why has the "oil and gas" world more than doubled?



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The oil patch is reacting predictably. Their outrage is manufactured, but I cannot blame them for fighting back. Fact of the matter is, Canada is getting the pollution, so we should get a decent return from the extraction of the resources. A more interesting question though is 'what would Alberta do with the money?' The record of the Alberta government with regard to managing the oil and gas bonanza money is a farce.

Canadian economy more and more rely on commodity revenue such as oil. Therefore, it makes perfectly sense to maximize profit whenever global market's demands allow for charging higher prices. Besides, all regional treaties like NAFTA and WTO ruling are not able to protect Canadian's rights and left open either to bullying tactic like the recent softwood dispute or taking long and painful legal procedures without any real tangible outcomes.

The oil boys will go where for cheap or cheaper oil? Venezuela? The sands represent the best free market source, currently overheated.

Let them be petulant - they will grow to accept it. They don't have to like it.

These are same guys who make a mess and walk away, sticking to the taxpayers to pick up the tab.

I am an Albertan involved in several industries outside of oil and gas. The Alberta economy is so overheated that we have to staff our companies with foreign workers. As for lost jobs, there are so many empty positions in Alberta that most of these people might actually go back to their pre-boom jobs that are yet unfilled. The outrageously high cost of housing is keeping our young people from having a hope of home ownership.



Our problem is not so much what will happen with increased royalties but one of where we had excessively low royalties for too long and ended up with far too much investment at one time. If the gas and oil last a little longer because we increased the royalties, maybe we'll have some left for the next generation.

The Premier likely come up the middle somewhere and the world will continue quite nicely.

The oil royalties, where the world price has escalated dramatically, are a very different issue than gas royalties. They are high and the North American prices are not competitive with the rest of the world's gas costs.

2.0 Methodology

The COMPAS web-survey of CEOs and leaders of small, medium, and large corporations was conducted October 10 – 12, 2007. Respondents constitute an essentially hand-picked panel with a higher numerical representation of small and medium-sized firms.

Because of the small population of CEOs and business leaders from which the sample was drawn, the study can be considered more accurate than comparably sized general public studies. In studies of the general public, surveys of 128 are deemed accurate to within approximately 8.7 percentage points 19 times out of 20. The principal and co-investigator on this study are Conrad Winn, Ph.D and Tamara Gottlieb.

