

As I write this Stelmach has yet to make a decision on the Royalty Review in Alberta. The uncertainty has been our industry's worst enemy. Both sides continue to battle in the media. The oil side – looking to create some doubt in the political forces to back off implementing the full report. The other side looks to use this as an opportunity to sink their teeth into industry and get a measure of redemption for high prices at the pump and at home and the industry recording record profit announcements.

Royalty rate increases are nothing new. In fact every time a new political party takes power (which is infrequent in Alberta) the new Cabinet seeks to re-establish dominance in the cozy relationship between the Oil and Gas Industry and the governing party. Peter Lougheed doubled them in the 1970's much to the chagrin of the Oil Industry amid similar concerns from Industry. Economic rents are always a sensitive issue – in essence striking a balance between incentivizing companies to go after some resource yet on the other hand maximizing the economic rent. Suffice it to say that governments are very good at such balances.

The low royalty structure in the OilSands perhaps worked too well. The capital that has poured in this year has been truly astounding. As well the financial markets have recognized this as a long term oil and gas play. Other global factors including geopolitics and scarcity of the resource outside of NOC (national oil companies) control have been a couple of the significant factors affecting the current commodity pricing. As I write this the market has flirted with the \$90 per bbl mark but the discussion is of possible \$150 bbl oil within the next year or two – a significant increase on the original \$100 bbl benchmark.

Natural gas on the other hand has done quite the opposite. We are struggling with low commodity prices – some uptick lately but nonetheless lower than a level that the industry considers sustainable. NG typically is viewed as a shorter term investment by financial markets. Oil and gas companies exist on a quarter by quarter basis. As the level of activity went through the roof in 2005 – 2006 the service sector costs got out of hand. As the Canadian Dollar rose against the USD through 2006 this had a double whammy effect. Costs had a built in appreciation rate as they were in CND while revenues were depreciating in the same vein due to the falling USD. The work decreased by 25 to 30 % in Q1 of 2007.

The royalty review – for the service sector – couldn't come at a much worse time. Despite whether you see merit in such a proposal or not the pure uncertainty that hits the financial markets is devastating to work commitments and risk-taking. Companies turn in quite the opposite direction with little capital expenditure planned for the near future. Stelmach has chosen to allow the issue to percolate in the public for the past month and once again likely the worst of all possible options for us. Even a bad decision would be something that the market and companies could learn to deal with. Instead the public media campaign is like a tennis game with either side volleying back and forth.

The service sector has genuine concerns about the effects on its work force. We will be the bleeding edge as oil companies tighten the screws. Our media campaign has got some bite between various Associations' press releases and a recent ad campaign talking about Oilfield workers, families and small town Alberta. Stelmach has given some signals about shifting his approach to a balanced one rather than implementing the Royalty Review's report carte blanc. However the public continues to overwhelmingly support harsh change unfortunately likely in response to high prices at the pump and home plus the continued quarterly profit announcements that put Oil Companies right up there on the "hate" list along with banks.

Stelmach is definitely riding this one. Perhaps it will be on enough of a crest of voter support that he will use it to launch an election campaign. However the public isn't always right. If too harsh of a change does cause economic fallout in Alberta, the electorate has short memories. If their communities are hurting so likely will their desire be magnified to blame someone.

The Other side has gone further to say royalties in line with Argentina and Venezuela are in order. Whether or not they believe that may be another story however it ups the ante to hope Stelmach at least implements the report. The Oil Industry, for its part, recognizes that some change is coming. We too continue to leverage in the media to gain some foothold into Stelmach's decision making.

As far as seismic goes, a number of the Canadian seismic companies have expanded outwards – primarily into the hot US market but a few have ventured far afield into other parts of the world. However for the many contractors we represent – from surveyors to permit agents to line cutters – not all have the ability to pick up and work elsewhere. These local contractors are on the bleeding edge and deserve our lobbying attempts to minimize any downturn. **R**

From the Thursday Files:

*The price of inaction is far greater than the cost of a mistake.*

– Margaret ("Meg") Whitman

Mike Doyle is the President of the CAGC – the Canadian Association of Geophysical Contractors – representing the business interests of the seismic industry within Canada. The CAGC website may be found at [www.cagc.ca](http://www.cagc.ca)



*Editors' comment: For additional background on Canadian natural gas pricing and industry trends, see the webcast for CSEG Luncheon talk (15th October 07) on CSEG website ([www.cseg.ca](http://www.cseg.ca)).*