

Royalty Framework May Spur Billions in Value Added Investment

Alberta's Industrial Heartland (October 15, 2015) – Albertans could see nearly \$25 billion of new investment flow into the province's energy sector as a result of the Royalty Review. Changing the current Royalty Framework to recognize and incent value adding within Alberta will help optimize returns to Albertans and generate additional investment in energy processing.

Alberta's Industrial Heartland Association (AIHA) submitted an official position to Alberta's Royalty Review Panel today. The opportunities and benefits of value adding form the key recommendation.

"Alberta's government has made it a priority to focus on diversifying the economy, expanding value added investment in Alberta's energy sector, and enhancing our environmental stewardship," explained Ed Gibbons, Chair of Alberta's Industrial Heartland Association. "Our key recommendation fits well within these goals, as it calls for recognizing and including the benefits of adding value as an underlying principle in the new royalty system."

It is AIHA's view that the current royalty system does not support the potential benefits that are created by value added processing. Therefore, the system as it is now cannot ensure Albertans are receiving optimal returns as owners of the resource.

The significant net benefits of additional value added energy processing include: increases to economic activity, job creation, new forms of government revenue, improved environmental performance, and creating markets at home for our energy products.

Additionally, Alberta's current economic situation has shown that we are vulnerable to the boom and bust cycles of the market. By increasing investment in the midstream and downstream sectors, we help diversify Alberta's economy and diminish reliance on any one sector within the energy industry.

"We've engaged with corporate stakeholders from around the world and reviewed studies on the potential for value added development in Alberta," commented Neil Shelly, Executive Director of Alberta's Industrial Heartland Association. "It is our belief that the province can achieve nearly \$25 billion in new investment if changes to the Royalty Framework support value adding and are accompanied by appropriate policies and programs."

For more information and to view the recommendations submitted to the Royalty Review Panel, visit www.industrialheartland.com. Submit your own thoughts to the panel at www.letstalkroyalties.ca.

Alberta's Industrial Heartland Association is dedicated to coordinating, advocating, and promoting sustainable industrial development in the region. The Association is a cooperative effort of Lamont County, Strathcona County, Sturgeon County, and the Cities of Edmonton and Fort Saskatchewan.

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Overview

Alberta is blessed with an abundance of natural resources. Oil and gas are main drivers of our economy and have served as a significant source of revenues for government operations for decades.

The Royalty Review is an opportunity to ensure that Albertans are receiving the optimal value for our resources, while strengthening the competitiveness for investment. Historically, the royalty regime has focused on achieving a balance between government revenue and maintaining a competitive system that attracts the necessary capital investment to Alberta's upstream sector. The benefits that Alberta gains by adding more value to our natural resources is a vital factor that is not addressed in the current royalty regime.

Whether an energy feedstock is processed in Alberta or exported as a raw commodity, the royalty rate is the same, therefore, *it does not consider the net benefits to the economy.*

Benefits of Increased Value Added Processing

Given our strong belief in adding value to our natural resources, Alberta's Industrial Heartland Association (AIHA) supports the objectives of the Royalty Review that aim to create diversification opportunities, such as value added processing.

Multiple benefits are derived from adding value to our energy resources including:

- Increased government revenues from taxation;
- Diversification and expansion of Alberta's economy;
- Creating markets for our energy resources;
- Creating jobs for Albertans and Canadians;
- Reducing environmental impacts; and
- Acting as a catalyst for innovation and technological development.

Alberta is currently in an ideal position to capitalize on these benefits. A recently released [study by the Canadian Energy Research Institute](#) (*Examining the Expansion Potential of the Petrochemical Industry in Canada, August 2015*) confirms that competitively priced feedstocks are the key to building and maintaining a competitive advantage.

Given Alberta's current abundant and cost-advantaged supply of oil and natural gas, expanding the energy sector's value adding midstream operations is a realistic option. This includes new investment in petrochemicals, refining, and bitumen upgrading, which would generate **over \$25 billion in new investment**. To achieve this, Alberta must overcome several challenges to global competitiveness. Adjustments to the royalty system could be the catalyst for success.

RECOMMENDATION

Alberta's Industrial Heartland Association recommends to the Royalty Review Panel that the benefits of adding value to our natural resources be recognized and applied as an underlying principle in Alberta's Royalty Framework.

Specific Policy Recommendations

Given this recommendation, policies should be incorporated into the royalty regime to increase value added investment in the energy sector. We recommend the following actions:

- 1. Modify the royalty rate so that it positively rewards processing of energy commodities like methane and propane within Alberta versus exporting in a raw capacity elsewhere**
- 2. Use the royalty system to support improvements and investments in midstream infrastructure that is necessary to capture the full value of our ethane resources in Alberta**
- 3. Utilize the Bitumen Royalty In Kind (BRIK) program to its full potential and, when necessary, expand the program for subsequent brownfield development of existing refineries**
- 4. Use the royalty system to encourage commercialization of new and emerging technologies in natural gas processing and the use of bio-based production**

While the royalty regime can provide the basis for enhancing value added processing and innovation, it should be recognized that additional policies or programs in support of the actions listed above are required for a successful and robust value added strategy.

Alberta's government has made it a key priority to focus on diversifying the economy, expanding value added investment in Alberta's energy sector, and enhancing our environmental stewardship. The AIHA supports these initiatives and encourages immediate action through the Royalty Review and additional policies to capitalize on the window of opportunity for investment into Alberta's energy sector.

Quick Facts about Alberta's Industrial Heartland:

- Alberta's Industrial Heartland is Canada's largest hydrocarbon processing region with over \$30 billion in capital investment
- Over \$15 billion in new investment is announced or already under construction
- Industry in the region spends over \$1.5 billion annually on locally sourced goods and services
- Companies in the Heartland employ over 25,000 full time employees (including contractors)
- Municipal taxation amounts to \$80 million annually to Heartland municipalities

Quick Facts about Value Added Processing:

- Compared to the total of Alberta manufacturing industries in 2014, the chemical sector ranked first in exports, average salary and value-added; second in shipments; and fifth in employment
- Conditions for value added sector growth in Alberta are ideal given our access to abundant and cost advantaged feedstocks (oil and natural gas)
- Global demand for key base chemicals (building blocks of common consumer goods) is expected to more than quadruple by 2020 as the world's middle class steadily increases in size
- Conservative estimates show that, given the right policies, Alberta could attract investment for as many as a dozen new value added operations, generating:
 - \$25+ billion in new capital investment
 - 24,000 construction jobs
 - 1,750 operating jobs