

“The Norway Advantage”

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Alberta and Norway share similar comparative advantages: oil, gas and human development. Norway and Alberta produce almost the same volume of oil and natural gas. Norway is now ranked number one in the world according to the United Nation's Human Development Index (HDI); based on my preliminary provincial HDI estimates Alberta would rank with Norway. However, comparing our respective management of oil and gas natural capital assets reveals important differences worth debating.

This week Alberta released its Budget 2002 estimates and forecast oil and natural gas revenues (royalties and other taxes) of \$5.77 billion for fiscal year 2001-02 based on the Government's 2001-02 oil price forecast of Cdn\$30.63 per barrel (Alberta wellhead price). By comparison, Norway is forecasting a net cash flow from state petroleum activities of roughly Cdn \$32.56 billion (189 billion Krona) from Northsea oil and gas production based on oil price forecast of the equivalent of \$Cdn 31.01 per barrel.

In 2001-02 Norwegians may realize more than five times more revenue per barrel of oil and gas produced than Alberta: Cdn. \$19.65 for every Norwegian barrel of oil and gas produced versus \$3.88 per barrel of Alberta oil and gas produced. If Albertans received the Norwegian rate of return on their oilsands and natural gas production, \$29.2 billion in oil and gas revenues would be flowing to government coffers in 2001-02 or \$23.4 billion more than is budgeted. That's more than enough money to pay for increased teachers salaries, reduced class room sizes, reduced health care premiums, more MRIs, urban transportation infrastructure and carbon reduction technologies that might satisfy the Kyoto protocol objectives.

True, Alberta is not Norway. Of the estimated Cdn\$32.5 billion in Norwegian oil and gas revenues, 46.4% is expected from the State's Direct Financial Interest (SDFI) in the Northsea oilfields through Statoil (Norway's national oil company), 2.1% in Statoil stock dividends and the remaining 51.5% will come from royalties, a special profits tax, corporate taxes, area fees and a carbon tax. Alberta has no direct financial interest in oilsands, no special profit tax nor a carbon tax. Moreover, Norway produces more oil but less natural gas than Alberta, with crude oil fetching a higher price than natural gas these days.

Yet Norway and Alberta are comparable. Norway has 4.5 million people; Alberta 3.0 million. Norway will produce 1.654 billion barrels (oil equivalents) of oil and natural gas in 2001; Alberta will produce 1.485 billion barrels. Norway produces more oil (3.337 million barrels per day) versus Alberta's 1.490 million barrels per day; but, Alberta produces more natural gas (5,342 billion mcf) versus Norway's 2,393 billion mcf. Alberta's black-gold oilsands mine contains recoverable reserves of 300 billion barrels, more than Saudi Arabia's reserves of 240 billion barrels. Norway's GDP per capita is Cdn \$35,955 versus Alberta's Cdn\$32,233 per capita. Each Norwegian will

realize Cdn \$7,236 in oil and gas revenues while each Albertan will realize only \$1,916. Norway's growing Petroleum Fund is estimated at Cdn.\$54 billion while Alberta's Heritage Fund languishes at roughly Cdn. \$12 billion.

So what's Norway's secret of success? The Norwegian government invested in the Northsea oil and gas reserves development through Statoil and is current reaping a huge revenue stream in the form of a State's Direct Financial Interest and dividends from Statoil (more than half of the 189 billion Krona from the total oil and gas revenues). Alberta also invested heavily in oilsands technology over the years, yet, in 2001 I estimate the government will earn an estimated \$0.98 per barrel in royalties. By comparison, in 1996-97, when the price of oil was roughly Cdn\$26 per barrel, oilsands royalties were an estimated \$2.95 per barrel. The drop in royalties reflects, in part, the impact of the "generic" oilsands royalty regime that took effect in 1997. Under the new oilsands royalty regime oilsands producers pay a base royalty of 1% of the gross value of production benefiting from a capital cost allowance that allows them to write off close to 100% of their new oilsands capital investments against revenues in the determination of their royalties payable.

The oilsands royalty structure means that Albertans could be waiting years before they see a revenue stream as healthy as historical rates and may never see the rates of returns Norwegians are experiencing today.

Could Albertans get more from their comparative advantage in black-gold assets? The Norwegian benchmark serves as an important reminder that Alberta might do more with its advantages. Perhaps we can learn more about the Norwegian advantage and their approach to fiscal and resource management.

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