Royalty Information Briefing #2
- What is Fair Share? -

What is Fair Share?
Fair share is a term used to represent the government share of resource revenues. The share is expressed as the portion of the revenue from production after the investor has recovered all costs, including a competitive rate of return on investment.[1]

Defining Fair Share:
The price a jurisdiction charges, through royalties, bonuses, taxes, and fees for the development of its natural resources is its share. Whether this price represents a "…fair share is inherently a subjective concept. At best, it is a value judgment or opinion that can neither be refuted nor proven".[2] While the definition of fair share can include royalties and taxes as well as other considerations such as investment activity and employment, it is most common around the world for the oil and gas industry and in the economics literature to define a jurisdiction's fair share as the sum of royalties, corporate income taxes, bonuses, and land rental fees. Even with this definition, there is an implicit assumption of a level of investment and sector activity sufficient for a healthy industry and a healthy economy.

There are in the order of 1,000 oil and natural gas fiscal systems[3] around the world, representing some 170 countries. All of these systems reflect that jurisdiction's attempt to define fair share. While this may indicate that the task is extremely difficult, almost all jurisdictions follow the same basic approach[4]. This provides a benchmark against which to assess what others do and to judge what is appropriate.

What share is appropriate?
In determining the "appropriate" share, competitiveness is a key concept – if the share is so high that investments are made uneconomic, resources will not be developed. Alternatively, if the share is too low, there are two basic consequences: (1) resource owners will be receiving less benefit than they are entitled to and (2) a share that is too low can result in inflation and other pressures related to the economy's ability to efficiently deliver the necessary inputs. These consequences can threaten an economy's overall competitiveness, including the competitiveness of the energy sector.

In a nutshell, the determination of what share is appropriate can be compared to the pricing of any commodity. The price ultimately charged depends on the quality of the product being offered, compared to similar products offered by competitors, and on the price that other competitors charge for their product. From the study of the 1,000 fiscal systems referenced above, jurisdictions with attractive resources[5] – higher quality products – capture a higher share.

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[1] This share can be thought of as the price a jurisdiction charges, through royalties, bonuses, taxes, and fees for the development of its natural resources. See *Royalty Information Briefing#1 – What are Royalties?,* Alberta Department of Energy, 2007.
[2] Wade Locke, *Is Newfoundland and Labrador Getting its Fair Share*, Newfoundland Quarterly, Vol. 99, No. 3, 2007.
[3] The fiscal system is more than royalties. It refers to the combination of royalties, taxes, bonuses, and land rental fees applied to a given production activity. For Alberta the system is a combination of bonus payments, royalties, land rental fees, and both federal and provincial corporate income taxes. Municipal taxes and other levies such as personal income taxes are included in project costs and thus not normally included when measuring the direct effects of the fiscal system.
[4] See footnote 3.
[5] Oil and Gas resources are identified as attractive or not attractive on the basis of geology, market access, and political, including legal, stability.

While competitiveness and inter-jurisdictional comparison can go a long way toward identifying the appropriate share, in the final analysis, the share is ultimately determined by what resource owners want. That is, on the balance that resource owners, directly, and indirectly through their political representatives, make among related issues such as royalty and tax rates, pace of development, incentives, investment activity, economic diversification, and employment.[6]

[6] To help ensure that policy makers are fully aware of what Albertan's want the Government of Alberta established the Royalty Review Panel and public process to hear from Albertans directly.