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PAUL PRECHT

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PETROLEUM HISTORY SOCIETY

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OIL SANDS ORAL HISTORY PROJECT

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TRANSCRIPT

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6 PAUL PRECHT WAS BORN AUGUST 6<sup>TH</sup>, 1945 IN NORTH BATTLEFORD, SASKATCHEWAN AND  
7 ATTENDED THE UNIVERSITY OF ALBERTA WHERE HE RECEIVED A BA DEGREE AND MA IN  
8 ECONOMICS. HE INITIALLY WORKED FOR STATISTICS CANADA AS A RESEARCHER, THE CITY  
9 OF EDMONTON AND THE NORTHERN ALBERTA INSTITUTE OF TECHNOLOGY. HE THEN  
10 JOINED THE GOVERNMENT OF ALBERTA AND WORKED AS AN ECONOMIST AND ANALYST IN  
11 THE TREASURY BRANCH BEFORE MOVING TO THE DEPARTMENT OF THE ENVIRONMENT AS  
12 A RESOURCE CO-ORDINATOR. HIS NEXT POSITION TOOK HIM TO THE DEPARTMENT OF ENERGY  
13 WHERE HE WORKED FOR 23 YEARS. HE WAS THE FIRST EXECUTIVE DIRECTOR OF OIL  
14 SANDS AND UPGRADING AND LATER BECAME EXECUTIVE DIRECTOR, MARKETS AND  
15 REGULATORY POLICY. PRECHT WAS RESPONSIBLE FOR FORECASTING AND ANALYSIS OF A  
16 WIDE RANGE OF PROJECTS AND POLICY ISSUES IN THE ENERGY SECTOR THROUGH PERIODS  
17 OF TURMOIL IN WORLD OIL MARKETS, AND THROUGH PERIODS THAT SAW CANADA  
18 UNDERGO MAJOR POLITICAL SHIFTS FROM A HIGHLY-REGULATED ENERGY SECTOR TO A  
19 PROCESS OF DEREGULATION. HE PLAYED A LEAD ROLE IN THE NATIONAL TASK FORCE ON  
20 OIL SANDS STRATEGIES IN THE DEVELOPMENT OF A GENERIC OIL SANDS ROYALTY AND  
21 TAX MEASURES THAT HAVE BEEN PIVOTAL TO THE UPSURGE IN THIS INDUSTRY. HE LEFT  
22 THE DEPARTMENT OF ENERGY IN MAY 2000 AND SINCE THAT TIME HAS BEEN CONSULTING  
23 PROVINCIALY, NATIONALLY AND INTERNATIONALLY.

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25 Date and place of birth (if available): August 6th, 1945 in North Battleford, Saskatchewan

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Date and place of interview: January, 29, 2013 at 9:20 a.m., Paul Precht's home.

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32 Name of interviewer: Adriana Davies, CM, PhD  
33 Name of videographer: Jimmy Bustos  
34 Full names (spelled out) of all others present: N/A  
35 Consent form signed: Yes  
36 Transcript reviewed by subject: Yes  
37 Interview Duration: 2 hours and 14 minutes  
38 Initials of Interviewer: AD  
39 Last name of subject: PRECHT

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41 AD: It is January the 29th and it's 9:20 a.m. I'm in the home of Paul Precht. My name is Adriana  
42 Davies and I'm a researcher/interviewer for the Petroleum History Society Oil Sands Oral History  
43 Project. Paul, thank you so much for agreeing to be interviewed.

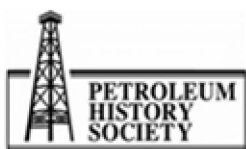
44 PRECHT: You're welcome.

45 AD: As you know, the interviews will be gifted by the Petroleum History Society to the Glenbow  
46 Archives and will be maintained in perpetuity as a resource for academics, historians and others. So,  
47 can we begin by telling me when and where you were born?

48 PRECHT: I was born on August 6th, 1945, an auspicious day in history. It's also the day that the  
49 Americans dropped the first atomic bomb. But anyway, I was born in North Battleford,  
50 Saskatchewan. Like many Albertans, born in Saskatchewan.

51 AD: So, can you just give me a summary biography and we'll get into in-depth questions after?

52 PRECHT: Sure. In terms of my academic training, the relevant portion would have been at the  
53 University of Alberta where I studied economics and I did a master's degree in economics. That was  
54 not studies that were directed towards energy and certainly not oil sands. I think we might have been  
55 vaguely familiar with this big resource up there at the time. But, not something that many people  
56 knew much about or probably even talked much about at that time. When I graduated I took a year  
57 hiatus and just travelled. And, when I came back I started teaching economics at NAIT. I was at  
58 NAIT for a little over a year and then migrated to the Government of Alberta starting with the  
59 Treasury Department where I worked in what was then known as the Budget Bureau. I spent about  
60 five years there. I had a brief stint in the Department of Environment, about two years. And then,



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61 landed in the Department of Energy in 1977 and I continued working there until 2000. Then, I left  
62 the government and went into consulting and have been doing that since.

63 AD: Now, when you worked at Treasury, what were your responsibilities?

64 PRECHT: Well, the Budget Bureau was responsible for preparing the budget basically. And so,  
65 there was a lot of work in terms of assessing individual department expenditure programs, looking at  
66 the overall revenue picture. One of the things that I did in those days was I did the first draft of the  
67 budget speech. We got involved in a few other issues and one of the interesting ones that I got  
68 involved with was in 1972 and that is when the report came out. I can't remember just the timing of  
69 this, but there was a project undertaken by a group called, The Conservation and Utilization  
70 Committee, which was mostly departments that were involved in resource management. And, they  
71 brought in a few others for this project, including Treasury.

72 My boss was brought in, Al (Allison D.) O'Brien, who is a very prominent member of the Alberta  
73 officialdom. And, he brought me along to participate in that. And, that was my first taste of what  
74 was then called, Tar Sands. And, that was a very infamous project or report as you may recall. It  
75 never saw the light of day officially but it got leaked by someone to Mel Hurtig and was made  
76 public. And, the CBC made a documentary of sorts based on that, which resulted in a big lawsuit  
77 with Peter Lougheed. I kind of sat back and enjoyed watching all of this play out because I knew a  
78 little piece of it. I wasn't an important part of it all. And, the reason why it never saw the light of day  
79 was because it was at the time that Lougheed and his minister were negotiating with Syncrude for  
80 the construction of the second project. And, that group, one of their key recommendations was this  
81 should be done by Canadians; very nationalistic and idealistic. I probably would have had some  
82 sympathies for that too but I can understand why Peter Lougheed would have had problems with  
83 seeing a report like that go public at that time.

84 AD: Who drafted that report? Do you remember at all?

85 PRECHT: Well, the key people were from environment. The chair of the Conservation and  
86 Utilization Committee was a gentleman named, Henry Thiessen and his principal assistant was a guy  
87 named Ken Smith and Ken Smith interestingly went on in due course to become the Deputy  
88 Minister of Energy. So, a few twists and turns in the path that got him from where he was back in  
89 the early 70s to becoming a Deputy of Energy.

90 AD: And, of course, did they ever find out who leaked?

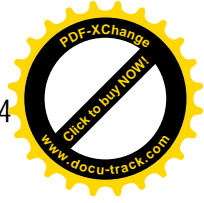
91 PRECHT: Not that I know of, so no. If it was known, it was never stated.

92 AD: Because, of course, Hurtig, as you know, was the company of Canadians, the great nationalist,  
93 he would be....

94 PRECHT: He would have loved that. They knew what they were doing. They knew where it was  
95 going. They made it available to him.



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96 AD: So, really you began work at the beginning of the Lougheed Era, didn't you?

97 PRECHT: I started working in the Budget Bureau three months before the election when Lougheed  
98 was elected. So, I started work under Harry Strom who was the Premier at that time. I was a very  
99 junior person, so I wasn't dealing directly with minister at all at that time.

100 AD: So, you said you worked at the Environment Ministry?

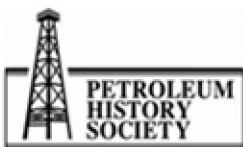
101 PRECHT: Briefly, yes. And, what caused me to want to go there I guess, was the fact that  
102 environment at that time was... you know, they had been chairing this Conservation and Utilization  
103 Committee and they were, under Bill Yurko, a very active group in a lot of respects. And, one of the  
104 things they were doing was a lot of this planning that was related through oil sands. They were the  
105 ones that developed the corridors that are still being used today. They are being used today because  
106 they are the obvious corridors, I guess. But, they put in place a lot of the land use plans that allowed  
107 them to be accessible today. If that hadn't been done that might not have been as easily achieved.  
108 And, I just saw them as an area where I thought a lot of things were happening and might be  
109 interesting to see it from the inside and get involved in that. As it turns out, about the time that I  
110 left, Yurko left as well. I think there was an election and a cabinet shuffle and environment never  
111 really got engaged very much in that kind of activity. And, I didn't stay there very long.

112 AD: So, what were you doing there?

113 PRECHT: Oh, I just got involved in a variety of things. It was a group that was called,  
114 Interdepartmental Relations, if I remember correctly. And, I was called a Resource Coordinator. But,  
115 it wasn't particularly using my skills as an economist for sure. It was a lot of land-use-related issues  
116 that they got involved in. And, it was kind of the land side of the department. There were big groups  
117 in water and air there as well, obviously; so, just doing a bunch of studies on the kind of work that  
118 they were doing there.

119 AD: And so then, how did you get your job within the new Ministry of Energy and Natural  
120 Resources?

121 PRECHT: Yes and it was a fairly new ministry at that time. Well, it was a job that was advertised  
122 that I applied for and that's kind of the way people moved around. And, maybe knowing people a  
123 little bit in terms of where you're going to. Not that they can hire you because they know you, but  
124 because they're going to be looking out for your resume at least if they know you, perhaps. But,  
125 you're still hired on the basis of merit. But, there was a development of a new division within the  
126 department. And, the Department of Energy and Natural Resources was an amalgamation of the  
127 Old Mines and Minerals Department and the Old Lands and Forest Department. And, so it was  
128 covering the full spectrum of natural resource management for the Province. And so, I was hired  
129 into a group called, Economic/Financial Services where we were a group of economists that were  
130 serving the needs of the entire department, renewable and non-renewable resources. And, while  
131 initially I was quite involved in renewable resource economics the department kind of gravitated  
132 back towards its traditional structures of a renewable side and a non-renewable side.



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133 Initially, there was a Chief Deputy Minister, Dr. George Govier who had been the chair for many  
134 years of the Energy Resources Conservation Board and came to become the Chief Deputy Minister  
135 there. And, after he left, there were two deputies, one for the renewable and one for the non-  
136 renewable side of the department and they began behaving more and more like separate  
137 departments, and our group of economic financial services largely gravitated towards the energy side  
138 then, because that is where we were doing most of our work. So, within a couple of years, although,  
139 I was hired as a generalist, in fact, I became very much involved in the energy side of the business.

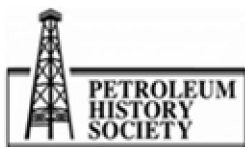
140 AD: You were part of a new unit that was created. You were the first Executive Director of Oil  
141 Sands and Upgrading. When did that happen in terms of your employment in the ministry?

142 PRECHT: Yeah, okay. That would have been, I think it was 1988, actually, when that new role was  
143 established. And so, I had been in the department for a number of years at that time. And, our  
144 group generally had grown. We'd gone through all of the federal/provincial energy battles with  
145 Ottawa and with the other provinces and being involved as well in that. We'd gone through a  
146 number of rounds of negotiations with oil sands producers on what we called at that time, Crown  
147 Agreements. We had some background in this and, at that time, I think the department and the  
148 government were starting to see oil sands as becoming more important economically to the  
149 province. And, they wanted to have a specifically designated branch that was focused on that.

150 And so, in 1988 I think there were five or six of us in that branch initially. We were strictly policy  
151 people. We did not have any administrative role; the administrative roles for both tenure and the  
152 royalty administration were still in the administrative side of the department. There were large  
153 divisions, one called, Mineral Resources which administered tenure and one called, Mineral  
154 Revenues which administered royalty. And, we were off on the side just dealing with the policy side  
155 of oil sands at that time. And, other parts of that policy division dealing with other aspects of energy  
156 as well.

157 AD: I'm going to back-track a little. The department actually had a division dedicated to the  
158 Province's dealings with Syncrude; because, of course, the Province was a shareholder. Do you want  
159 to talk about that and your perceptions of that?

160 PRECHT: Sure, sure. There was a group called, Alberta Oil Sands Equity that was, I will say  
161 nominally part of the department. But, they were actually quite autonomous in every sense. And,  
162 that was I think their decision and probably a good decision on their part. They did not want to be  
163 seen by the other Syncrude partners as simply being a conduit from Syncrude into the government.  
164 In fact, we always found that if we wanted to find something out about Syncrude we were better off  
165 to go directly to Syncrude than to go our own oil sands equity people because Syncrude people were  
166 more likely to be forthcoming with us. And, it's not that they were deliberately being difficult or  
167 trying to undermine us in any way. It's just the way they operated and the way they wanted to be  
168 seen. So, they were there and I knew some of them. Some of them were people that had worked in  
169 other parts government in the past and I'd known them. So, I might run into them in the corridors  
170 or outside of the building and things like that. But, it wasn't as if we were dealing with them on a day



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171 to day basis. Until the very latter part of my tenure in the department when under the Klein  
172 Government when, in effect, that group was disbanded and the Alberta Government had already  
173 made the decision at that time they were going to dispose of its interest in Syncrude. And, what was  
174 left of the oil sands equity group came under me as an acting assistant deputy minister at that time.

175 AD: The believers that government should stay out of industry and let the private sector do it, do  
176 you think that there was some uneasiness in having the Government of Alberta as a shareholder in a  
177 corporation with various for-profit partners? Did you get any sense of any questioning of this role?  
178 Or, was it just a given?

179 PRECHT: I don't think there was much questioning, quite frankly. I think maybe the other partners  
180 in Syncrude would have liked them to have been simply a silent partner. But, clearly, back when the  
181 government assumed that role in the 70s that was done again by Peter Lougheed to fill a hole that  
182 was left in the mid-70s when ARCO pulled out. ARCO decided they were going to throw their eggs  
183 in the Prudhoe Bay of Alaska and pulled everything out of Syncrude. And, if this project was going  
184 to survive, somebody had to fill that hole. And, Peter Lougheed negotiated with the Government of  
185 Ontario and Canada and Alberta to collectively come together. So, number one it was necessary at  
186 the time to get the project going. And, number two it was a pretty good investment. It paid off well.

187 So, in the early Klein years when we had all these fiscal problems there were a lot of investments  
188 that had been made that weren't good investments, and that people were obviously criticizing  
189 because tax payers money that had been squandered in effect, or had not been used well, invested  
190 well, cannot say that about Syncrude for sure. There was always an issue if Syncrude wanted to  
191 undertake a major expansion, in that if the government require a major cash call, would the  
192 government be able to participate or not. And, that didn't really happen at that time. It happened  
193 later, I think, after the government got out.

194 After 2000, they were doing these big expansions. So, they never had to face that particular decision  
195 or situation. So, I think it was generally accepted as a good thing to have done and a good thing to  
196 have been in. I don't think we were seen particularly. You might get different senses of -- if you talk  
197 to some of the private companies that were partners, whether they appreciated the government  
198 presence or not. And, I can't speak for them obviously. But, within government, and my sense of  
199 what the public sentiment was, I don't think there were any major misgivings about that.

200 AD: And, of course, now that the oil sands have proved to be a major economic driver for Alberta,  
201 people forget that in that period very little money was made in the 1980s. Suncor and Syncrude were  
202 both experiencing enormous difficulties. The original plants were not terribly well designed. They  
203 were not practical. So, they always had to...

204 PRECHT: Nobody had ever done this before...

205 AD: Exactly. They had to sink in more and more money. And, also then, I mentioned NEP in terms  
206 of Albertans' sentiments. That the Federal Government really screwed them with respect to the oil



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207 sands. Do you want to talk a bit about the economics of petroleum at that point and the politics of  
208 petroleum? You were there.

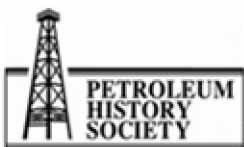
209 PRECHT: One of the things that I like to observe once in a while is that, when Suncor was built,  
210 the price of oil was less than \$3.00 a barrel. I don't know exactly what it was, in the \$2.50 to \$3.00  
211 range. In fact, when the initial investment decisions for Syncrude were taken, the same thing, prices  
212 quadrupled; international prices quadrupled in late 1973. We didn't get those in Canada immediately.  
213 We had regulated prices in Canada and in the other parts of the United States as well at that time.  
214 So, we weren't alone in that regard.

215 So, yeah, there were some economic challenges there. By the time Syncrude came on, the price had  
216 quadrupled. And, I think Syncrude as part of their agreement, initial agreement, were granted the  
217 world price equivalents and I can't remember specifically the terms there. But, with the National  
218 Energy Program, that was at a time when Alberta had been doing very well economically. And, it  
219 had created the Heritage Savings Trust Fund; it was socking money away. And, it was doing a lot of  
220 things, Peter Lougheed bought an airline and did things like that. And, what might have been a  
221 mistake on his part was to actually talk about assisting governments in the Maritime Provinces in  
222 some ways. And, I think that got the attention of Pierre Trudeau who had said, "Hey, that's not his  
223 role. That's a role the Federal Government should be playing." And, that wanted to get more of the  
224 economic benefits was a major driver of the National Energy Program.

225 The difficulty, apart from federal/provincial differences on who owns and manages the resources,  
226 but the big difficulty with the National Energy Program is that it was predicated on prices  
227 continuing to rise forever. And, I remember very well, some of the price charts we had and it wasn't  
228 just us that believe that. That was the general consensus out there through most of that period. So, it  
229 wasn't as if we were looking at the world -- well, we probably were looking at the world through  
230 rose-coloured glasses but so was everybody else. And, so, if those prices had come to fruition maybe  
231 the National Energy Program wouldn't have been viewed quite the way it is today by Albertans.

232 But, two things -- it's always nice to look at this in retrospect because you can see things there that  
233 should have been obvious at the time; prices had quadrupled in 1973 and tripled again around 1980,  
234 the Iranian Revolution. And, the economy just couldn't absorb that. And, so, two things happened:  
235 all of a sudden demand for energy products went down and supply started going up. All this North  
236 Sea oil, Alaskan oil that was now very attractive started coming on and people started consuming  
237 less. And, you could look at the stats and just see what was happening. So, the energy industry went  
238 into the tank a bit. There was a major readjustment had to happen with the industry. But, there was  
239 a global recession. And, while people in Alberta like to blame that on the NEP, we had a recession  
240 in Alberta and no one will argue with that. The NEP might have been a factor but it wasn't the  
241 major cause. And, even me saying this might not go over very well in the streets of Calgary today  
242 because they might still like to blame it on the NEP.

243 AD: Oh, absolutely.



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244 PRECHT: And, maybe people in the government here still would as well. But, I understand a bit  
245 where Pierre Trudeau was coming from. I understand as well where Peter Lougheed was coming  
246 from. And, things had gotten very good in Alberta, I guess, at that time which changed very abruptly  
247 at the time of the NEP and partly because of it.

248 AD: So, basically when you then took on this position in 1988 of Executive Director of Oil Sands  
249 and Upgrading within the Department of Energy, things were not terribly rosy in the oil sands?

250 PRECHT: We had not seen any major projects since Syncrude had been constructed. We had  
251 started to see the smaller in-situ projects in the early 80s; Cold Lake and in Peace River. And, there  
252 was a strong desire within Alberta to see what we called at the time, the Third Oil Sands Projects.  
253 And, the project that was touted at the time was called OSLO, which stands for Original Six Lease  
254 Owners, I think is what the acronym was. And so, at about the time that I assumed this new role  
255 there were very active negotiations with the OSLO partners and with the Federal Government to try  
256 to get a mega project under way.

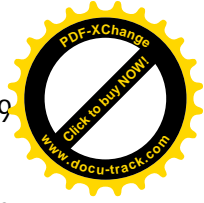
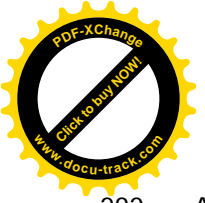
257 I think it might be fair to say that the Federal Government might have been as keen or more to see  
258 it partly for economic reasons. Partly because, the Deputy Prime Minister at that time was an MP  
259 from Vegreville, Don Mazankowski, who had some familiarity with the industry and the region.  
260 And, I think, Mazankowski might have been Minister of Finance as well if I recall correctly. And, he  
261 pinned a lot of his strategy for the forthcoming election that they were preparing for on an energy  
262 mega-project approach. And, it included OSLO. It included the bi-provincial upgrader which did  
263 end up getting built in Lloydminster on the Saskatchewan side. It included Hibernia, which is off-  
264 shore Newfoundland and also had direct federal involvement in a number of respects including  
265 equity and the Vancouver Island Pipeline.

266 So, four projects and three of the four actually went ahead and I don't know if they went ahead,  
267 pretty well, I think in terms of the timing that might have been envisaged. The OSLO project, there  
268 was an agreement signed later in 1988 between the partners and the two levels of government. The  
269 agreement was just a statement of principles that they were agreeing to, and then you sat down and  
270 did the fine print part of the agreement and fleshing it all out. And, that took a lot of time and effort;  
271 at least a year or more. By the time that was completed, I think whatever momentum it had initially  
272 was dissipating. And, again, the key factor I think was oil markets were just not looking promising  
273 and nobody was feeling optimistic enough that they wanted to invest money including the Federal  
274 Government. And, I think, one of the factors that caused that project to fail was the Federal  
275 Government finally saying, "Guess what? We're pulling the pin on this thing. We don't like this."  
276 They were in there as was Alberta with some loan guarantees and some grants, and those things can  
277 work out if the project is very successful, but if it's not, they are left holding the bag and not  
278 something a politician wants to have to explain a couple years down the road when it becomes  
279 evident to everybody that this isn't going to work. So, that project didn't happen. The bi-provincial  
280 vote did go ahead, a little different structure. And, maybe what helped that is you had three  
281 governments instead of two governments that were there.



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282 And, I ended up shortly after that, taking a two-year leave from the department. I went to Africa on  
283 a secondment. So, when I got back the oil sands had kind of lost its momentum and there wasn't a  
284 whole lot happening on the horizon. Oil prices were not looking any better, nobody was saying, as  
285 we always used to say, "Well, this is our resource of the future." We just weren't sure when that  
286 future is going to be. Is it next year or ten years? I think everybody said, "Yeah, its ten years down  
287 the road that we're going to need this stuff." And that, ten years kept moving out and out and never  
288 happening.

289 But, early when I got back in 1992-ish, I was called into a meeting in the office of my boss who was  
290 Assistant Deputy Ministry Norm McMurchy at the time. And, there were a couple of people from  
291 the Alberta Chamber of Resources and some of the companies that were members there. And, this  
292 was the seeds being planted for the National Task Force on Oil Sands Strategies. And, these people  
293 were looking at it exactly the way I'm relating it to you here. Look, we've got to figure out some way  
294 of bringing that future forward here so that we can see something happen to this resource. One of  
295 the key things that had happened is that there had been a Liberal government elected in Ottawa, still  
296 not very well liked in Alberta, NEP kind of tainting. But, the new Minister of Natural Resources was  
297 from Edmonton, a lady named Anne McLellan and she wasn't the only Liberal; there was also  
298 Kilgour, I guess. But, she was maybe the only cabinet minister, certainly the most senior cabinet  
299 minister and somebody then that people went to and she had time for them obviously. And, she had  
300 to she was the representative here.

301 And so, they were able to convince her that this National Task Force would be a good idea and that  
302 the Federal Government should be part of it and needed to be part of it. And so, that was the  
303 beginning of something that took a couple of years of participation on my part and a big part of  
304 what I did over the next couple of years was work relating to that.

305 AD: And, I'll ask you to go into detail with respect that work. But, I just want to back-track a minute  
306 and ask you, who were the OSLO partners?

307 PRECHT: Well, okay there were the original six: Imperial, Esso, Alberta Energy Company and Pan  
308 Canadian (they were separate companies at that time), Petro-Canada and Gulf, I believe it was. And  
309 then, Alberta Government, Alberta Oil Sands equity again was in it. And, Petro-Canada had  
310 inherited the Federal Governments equity in Syncrude and Pan Canadian I think had acquired the  
311 Ontario Government's equity. And, it wouldn't have been Alberta Energy Company, sorry. I have to  
312 think more of who that was. I think it was Canadian Occidental was the other party in there.

313 AD: But, what killed OSLO basically was that the oil industry was still depressed and conventional  
314 oil was readily available and less costly to produce than oil sands per barrel. So, it failed. Now, I want  
315 to talk about the origins of the push towards the Task Force and who the key players were. You  
316 mentioned the Alberta Chamber of Resources. Do you want to talk about the foundations of that?

317 PRECHT: Well, the two key people that I think of that came from the Chamber at that time, were  
318 Erdal Yildirim who had been chairing a Task Force under the Chamber and within the Chamber,



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319 focused on oil sands but just from an Alberta perspective. And, he'd been looking at various  
320 numbers of issues and he worked for Canadian Occidental at the time. And, I think he had been  
321 given quite a free reign by his company to get himself involved in oil sands development issues.  
322 And, in addition to Erdal, the other key person was the president or executive director or whatever  
323 his title was of the Chamber, a guy named Don Currie. And, they were both very avid promoters of  
324 resource development and the biggest resource that we have in Alberta, and that came under their  
325 realm, was the oil sands. So, this was their focus and they were asking the same questions as  
326 everybody else, "We've got this tremendous resource out there that's sitting there and not much has  
327 happened. A little bit is happening, but what can we do to get things moving here."

328 That was the impetus for that. And, the mission if I recall from the Task Force was identifying  
329 obstacles and developing policies to overcome those obstacles and obstacles to development. So,  
330 those are the key guys. And, I think in that initial meeting was a guy that I didn't know very well, but  
331 I think he was the mining manager at Syncrude. His surname was Love, was it Don Love?

332 AD: Yeah, Don Love.

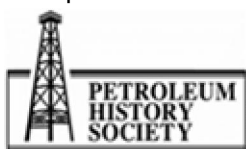
333 PRECHT: Don Love. He was there as well. But, I don't know if he might have left or retired from  
334 Syncrude. He was not very involved in the Task Force per say after that. But, he was definitely there,  
335 I know at that initial meeting and one of the people that helped germinate the idea for that.

336 AD: So, were you at the table then as an Alberta Energy representative or not?

337 PRECHT: Once the Task Force formally got underway, I was at the table as an Alberta Energy  
338 representative. We had a fair bit of turnover in our department at that time. Norm McMurchy who I  
339 mentioned, left shortly after and I became acting ADM and stayed in that role for I think the better  
340 part of two years, a year and a half maybe. This Task Force went on for a couple of years though  
341 and it didn't complete its work until 1995. There were various people that participated from the  
342 department but I was the one that was there from day one until the end of it. And, I was involved  
343 for the duration of that Task Force.

344 AD: So, can you tell me about the studies that were undertaken and who did them and what the  
345 recommendations were? I mean, just tell me how the Task Force worked and the results?

346 PRECHT: Well, there were a number of sub-groups within the Task Force. And, the area that I was  
347 most focused on was on the economics. And, the key things that they were looking at there were,  
348 are there ways that we can structure royalties and taxes that can benefit this industry and can provide  
349 some of the stimulus we're looking for. On royalties, in particular, what the companies were looking  
350 for was a generic regime because what we'd been doing prior to that with OSLO and with Syncrude  
351 and Suncor, and there had been a couple of other projects, Alsands and Imperial Cold Lake back at  
352 the time of the NEP that none of the latter having gone forward. They were all one-off kind of  
353 negotiations. And, they said, "This is creating uncertainty and that could be an impediment to  
354 potential investors. Let's get something out there that everybody knows what it is and is  
355 transparent."



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356 So, part of the objective was to get a generic oil sands royalty regime. Now, I have to say, the  
357 industry side of it was largely led in that particular Task Force by Syncrude. But, Syncrude had their  
358 own issues there I think it's fair to say, because they had a 25-year deal with Peter Lougheed starting  
359 in 1978 and this was now the early 90s and it was to expire in 2003. Peter Lougheed negotiated a  
360 pretty good deal for the Alberta Government I think it's fair to say. In the early years, especially,  
361 they got a lot of royalty dollars out of Syncrude. And, Syncrude were very motivated to try to get a  
362 royalty treatment that would be less onerous at the expiry of that, put it that way. So, they led that  
363 and with the full expectation that, whatever was developed there would be applicable to them if not  
364 immediately at least at the expiry of their current agreement which was again, the 25 year term. But,  
365 there were a number of other players.

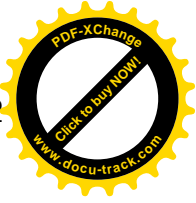
366 Suncor obviously was on table because they were the other big player. And, some of the smaller in-  
367 situ players were there as well. And, we spent a lot of time. We did as you do in these things we have  
368 some models that are intended to replicate the economics of an oil sands project so you're testing,  
369 'how does this look and how does this look.' And, we were testing at different prices as well,  
370 obviously, because nobody knows what the price is. And, it wasn't as if we thought that we were  
371 going to get bailed out by prices at that time. We might have thought that a little bit in the OSLO  
372 days because we had fairly optimistic price expectations that weren't realized. I don't think anybody  
373 was counting on that in the early 90s. I think we were firmly stuck in that mid-teens range for oil  
374 prices.

375 We were working a lot with the royalty parameters. But, the other thing was the tax side of it. And,  
376 they were looking for... there were some situations in which oil sands investments got generous tax  
377 treatment but not all. And, there were some inconsistencies there. And so, there were some flaw and  
378 fixing up flaws in the Income Tax Act is not easy. I think the Government of Canada never wants to  
379 see that get open because you're opening a can of worms and you don't want to have to open it if  
380 you can avoid it. And, the Federal Department of Finance people are about the most hard-nosed  
381 bureaucrats you're ever going to encounter in terms of talking about tax policies. So, we went  
382 through some rounds with them. But, I think there was a lot of industry to government, I'm not  
383 sure if it would be negotiations I would say, maybe lobbying is a better word, happening at the same  
384 time. Well, the finance officials might not consider themselves amenable to lobbying. I think  
385 probably some of the ministers finally were convinced that we've got a deal with something here and  
386 that we can provide an impetus that would be valuable to the oil industry were fixing up some of the  
387 inconsistencies that exist anyway. And, this could be good for the economy, certainly for Alberta  
388 and again, the Liberal Government at that time probably looking for ways to endear themselves here  
389 in Alberta. So, I recall quite specifically the meeting which was in Fort McMurray. We were in the  
390 Suncor boardroom at the Suncor plant and the Government of Canada official was there as well and  
391 some of the people from finance were there.

392 And, we were talking about the inconsistent treatment under tax of Suncor doing some in-situ  
393 development which they were planning to do because they have an in-situ resource adjacent to their  
394 oil sands mining project. And, they mining part of it and both would be producing bitumen that  
395 would be feeding this plant. And, I seem to recall some lights went off in some minds there that



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396 said, "Ah, I think this would be a reasonable thing to do." And, the federal finance people I think  
397 overcoming whatever reluctance they would naturally have to tax changes saying, "I think this is  
398 justifiable and we can do it." So, we came out of that whole extended period of negotiating and back  
399 and forth. What can we do? What can you guys do? And, we had to show that there was something  
400 in for governments as well. You couldn't just say, "We're going to give up the farm here for these  
401 guys as well." And, there were agreements at the end of the day that led to new royalty and tax  
402 treatment that was admittedly very generous. And, that was kind of the key deliverable from that tax  
403 force I would suggest.

404 And, in 1995 even though things hadn't really taken off, one of the things that happened in '96 and  
405 '97 was all of a sudden oil prices started to strengthen. And, the other thing that happened is that all  
406 of a sudden there were some technology changes happening in the industry, in the mining area. They  
407 switched from the bucket-wheel mining systems to truck and shovel. They went from conveyer belts  
408 to hydro-transport. And, in the in-situ they went to SAGD. And so, we had three things happening  
409 there. We had these fiscal changes, fiscal policy changes, tax and royalty. We had prices  
410 strengthening in '96 and '97. '98 again, was a blip, like I say a collapse; price cratered but very briefly.  
411 They recovered fairly quickly so it wasn't a prolonged price slump. But, you also had these new  
412 technologies then that were affecting the economics and making investments more attractive and oil  
413 sands economics better.

414 And so, if you go back and look at the final reports of the National Oil Sands Task Force you will  
415 see that there were some forecasts in there of here is what investment levels might be after a 20 year  
416 period. And, those were reached within four or five years if I recall. And all of a sudden, the industry  
417 just kind of took off. But, I think the point that I want to make there is the Task Force was one of  
418 several factors contributing at that time. And, it was important and valuable but not the only thing  
419 happening.

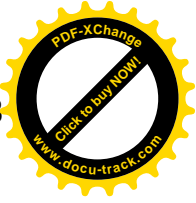
420 AD: So, to put it very simplistically, the industry needed to look at ways of acquiring new venture  
421 capital because they had to make technological improvements and changes. But also then, if the  
422 revenues that were being projected they wanted to get a larger share. Would that be fair to say?

423 PRECHT: Yes. I think that would be a fair characterization. I mean they were doing a lot of  
424 research. If you look at and maybe I'm more familiar with the Syncrude research programs, but they  
425 started working on things like the teeth on their bucket-wheels which were originally designed for  
426 mining soft coal in Germany. And, they came over here into the abrasive oil sands that were frozen  
427 solid for five months or whatever of the year. And, it didn't hold up. They were continuously  
428 changing them. They were looking at the rubber on their conveyer belts that was not designed for  
429 carrying that kind of material and that kind of quantify for that kind of consistency. There was just a  
430 whole whack of technical problems. I mean, there are other people that know this far better than I  
431 do that can speak to that kind of stuff.

432 But, they were spending money solving these things as they went and they were helping to improve  
433 economics as they went but it was costing them money. So, there were expenses that would have



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434 exceeded what they expected. The original cost profiles of Syncrude and Suncor would have been  
435 based on \$2.75 a barrel. That's all we're going to see. Well, they did see more than that but their  
436 costs went up as well and partly because of all these unanticipated things that they were going to  
437 have to address as well. And, although their revenues went up they plateaued there in the early 80s.  
438 And, in fact they fell dramatically in 1986 when OPEC changed its policy and prices were a lot  
439 weaker and basically never recovered until the late 90s. There was a little blip in there I guess in the  
440 first Gulf War. But, it was a blip and everybody recognized it as that. That was nice to have in your  
441 pocket but it wasn't affecting your investment decisions particularly at that time.

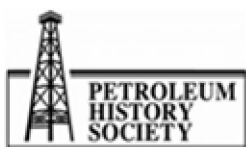
442 AD: So, when were the new royalty and taxation regimes implemented?

443 PRECHT: Well, I think the policy announcements were in late '95 on that. And, I'm going to say  
444 '96. I know that the new oil sands royalty regulation was promulgated in 1997. I think there may  
445 have been a few project announcements that might have preceded that with a pretty good idea of  
446 what it was going to look like and an understanding that they would get this. So, I think there was  
447 investment that might have happened even prior to the regulations coming out. But, it was '96, '97-  
448 ish when those kinds of things happened formally.

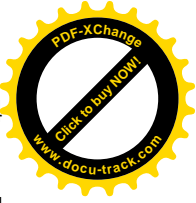
449 AD: And, your involvement was directly with respect to the new royalty regime. Do you want to  
450 talk at length about that because I think that there are very few interviewees that have that  
451 knowledge, because of course, you did it?

452 PRECHT: The traditional royalty approach for oil and gas is what we call an, Ad Valorem Royalty.  
453 Ad Valorem is according to the value literally I think from the Latin. But, it means it's a share of  
454 production and that share has a value and it's a share of gross revenues, in effect, is how it got paid.  
455 The original Syncrude agreement was kind of very different structure from I think what had ever  
456 been seen before, certainly in Canada or in North America in terms of royalty structures; where  
457 Peter Loughheed designed that to be what he called Share of Deemed Net Profit. So, instead of based  
458 on gross revenues it was based on the profits. And, I think it kind of stemmed from some  
459 international agreements that were being signed. I think it all started in Indonesia if I would recall  
460 some of the broader perspective for that kind of thing. Not quite the same way as Loughheed  
461 structured it. And, when we got to the next round of projects after Syncrude and I was only on the  
462 periphery on these, so I was not a key player. They were with Alsands and Imperial: Cold Lake. They  
463 also followed that structure of a profit based royalty. But, here's where we sort of go back more to  
464 the Indonesian model then where we had an early Ad Valorem Royalty and that Ad Valorem Royalty  
465 would apply until payout, until you have recovered your initial investment. And in fact, there was a  
466 return on unrecovered costs as part of that calculation. So, it was a well-conceived kind of structure  
467 I guess I would say, from an economist perspective.

468 Then there were little fiddles with this in terms of how this would work. But basically, the standard  
469 that we came to adopt there was a 30% net profit share, net revenue share. And, 5% Ad Valorem  
470 pre-payout and that 5% was generally phased in from one up to five at 18 month intervals. And, I  
471 know that and I'm guessing you're going to hear this from Barry Mellon when you speak to him that



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472 the idea that he had and I think others in Alberta, Peter Lougheed and the ministers would have had  
473 is that sharing the net revenues on these projects should be one-third, one-third, one-third. So, that  
474 one-third would go to the Province which would be predominately our royalty share, we also got a  
475 small corporate income tax. One-third would go to the Federal Government who in those days had  
476 fairly high income tax rates, their income tax rates today are much lower and they wouldn't get  
477 anywhere close to one-third. And, one-third would remain with the producer. And, that was kind of  
478 the target sharing that was envisaged.

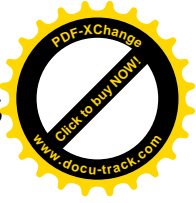
479 So, we kind of continued along that path and for these in-situ projects in the early 80s as well and we  
480 developed what we call the Cold Lake Formula; it was just called that. And, it was the royalty that  
481 applied to the Esso in-situ project in Cold Lake. It was small scale. It was not the integrated project  
482 we're talking about in '79/'80. It was bitumen production. I think it started off at 25,000 barrels a  
483 day. It's quite large today. I don't know exactly but I'm going to say over 100,000 barrels a day. And,  
484 they've continued to produce and expand over the years. And, that got applied to other in-situ  
485 projects, minor variations. It was basically what the OSLO project was to get. But, it was still a one-  
486 off negotiated kind of thing. One of the other things that happened along the way is that a few  
487 companies were granted (not everybody but most at that time and this was becoming more  
488 substantive a royalty waiver on the natural gas that they consumed. And so, if you looked at the net  
489 royalties that Alberta was getting, that resulted in a significant diminishment of that net royalty.

490 When that was originally granted, I think in those days gas markets were not strong and Alberta had  
491 a lot of gas and sort of the view as well. It was never going to get developed, you might as well give  
492 it away and if these guys were prepared to develop the resource, we'll give it to them. So, here were  
493 in the 90s now with all of these different kinds of agreements out there, some of which had natural  
494 gas royalty waivers and trying to come up with something that would replace that generically and still  
495 provide an incentive. So, the royalty regime that came out of that Oil Sands Task Force was similar  
496 in structure with a pre-payout Ad Valorem rate and post-payout rate based on net revenues. The Ad  
497 Valorem pre-payout rate was very low, 1%. And, the post-payout rate was 25% which is lower than  
498 what most of the companies had. They had to have 30% before. But, there were a couple of other  
499 difference as well. Under the previous regime they had uplifts of capital to off-set overheads; in the  
500 new regime we weren't going to recognize overheads. You didn't need that uplift. I think this might  
501 have been if I could say here now, a bit because Syncrude was negotiating it and Suncor who had  
502 most of their operations up there, they didn't have overheads. It was all built right in up there. They  
503 didn't worry much about that. Some of the newer companies it's more a concern to now, maybe.  
504 And, the other was that they were given a 10% return allowance generally, previously and the return  
505 allowance we gave under the generic regime was long-term bond rate; which at that point was  
506 traditionally about 5%. And, the rule of thumb that I would have had for that is it is inflation plus  
507 3%. That worked pretty good until then but in recent years it hasn't worked at all. In fact, long-term  
508 bond rates are extremely low right now.

509 This is in particular after the banking meltdown in 2008, but in particular less than 3% now. I  
510 haven't looked at it just lately. So, it's a very low threshold and moving from pre-payout to payout.  
511 But, part of the reason why then it looks to be lower than this old Cold Lake regime is because there



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512 are no overheads, there's a lower return allowance but also we wanted to have some leverage to get  
513 rid of this royalty waiver on gas. And, even that wasn't easy to achieve. But, I think our assessment  
514 of the time was that we weren't going to be losing a lot relative to where we were by moving here.  
515 Now, there was another component though that did have some fairly major implications and that  
516 was that it was to be on the first marketable product; which is a term that got put in there at the  
517 pushing of one participant in particular who wanted to see the royalty on bitumen, not on synthetic  
518 crude oil. And, Syncrude and Suncor in particular were integrated operations. They produced  
519 synthetic crude oil.

520 So, they had an upgrader as part of their operation and there were differences of view between them  
521 as to whether they wanted to have the royalty on the synthetic barrel or the bitumen barrel at that  
522 time. There were differences. I don't think there is any now. But, some felt that there were  
523 advantages of having... because upgrading is a capital intensive activity there were advantages of  
524 getting a write-off associated with that and "We don't mind having it integrated," and others saying,  
525 "No, we don't have that part of it all. We want to get the royalty on the lower value product." And,  
526 bitumen is going to be a lower valued product. We know that. That's part of the discount that we're  
527 talking about today here in 2013 that's hit the press in the last week or so here. And, there have been  
528 a lot of people that have questioned and criticized that change. And, I would have to say  
529 administratively, it's a big problem when you've got an integrated operation and you try to draw a  
530 line in their accounts and say, "These costs relate to this part of the business and not to this  
531 business."

532 So, I'm not an accountant but I would guess and I know this is true because I've talked to some of  
533 them that are involved in administration. It's an accountant's nightmare. And, I've think they've  
534 tried to develop rules of thumb in terms of how you treat some of this stuff. There are disputes, I  
535 know that, between Syncrude and Suncor and the department on accounting costs and are these  
536 costs attributable to the bitumen. Obviously, these guys want to have as much of their costs  
537 attributed to the bitumen as possible because those are deductible for royalty. And, they want to get  
538 a low value for the bitumen. It's not sold by those producers at least, so you can't sort of go to an  
539 arm's length transaction and say, "Well, here's what the value of it is." So, there are a lot of  
540 difficulties with administering that." Conceptually, I would argue that it is a good policy and a  
541 necessary policy because what you end up seeing is if you produce bitumen and sell it to someone  
542 else who upgrades it, that upgrader is not subject to royalty. So, all of a sudden you are creating an  
543 incentive to people to not upgrade then if they can avoid the royalty and to upgrade -- the bi-  
544 provincial got built in Saskatchewan, not in Alberta. Maybe, that was part of what people had in  
545 mind. Let's make sure that Alberta can't put a royalty on this because it's partially integrated, there's  
546 a lot of Husky oil that goes in there and it is owned by Husky. Definitely, there is no royalty on the  
547 upgrading portion of that business. When the Shell project was built and that was after the Task  
548 Force and so the new rules were replaced then. There was no debate on that. That is an upgrader  
549 and refinery that are located in Scotford, not in the Athabasca area and it's totally separate. The  
550 accounting issues are not difficult on the cost side I don't believe.



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551 There might be some issues on the revenue side there because there is not necessarily an arm's  
552 length transaction. But, in what's happened in recent years with all of the issue about where the  
553 upgrading is happening and a lot of it now migrating (for other reasons completely) to the United  
554 States rather than happening in Canada or Alberta, if you were putting a royalty in that upgrading  
555 then I would say, you've got a really good reason to try to do it somewhere else in order to avoid  
556 that royalty. So, I think to establish a level playing field for investors in terms of choosing where to  
557 make those investments it was a necessary initiative. Even though it created some administrative  
558 nightmares and resulted in a royalty erosion for Alberta, because we were getting more royalty  
559 obviously from the higher valued barrels, synthetic barrels. And, maybe not something that was  
560 recognized so much as an outcome of that Task Force but it was.

561 And, interestingly if I can bounce forward here to the royalty panel under Ed Stelmach when he had  
562 this panel review the royalty structures, I don't think there was any discussion that I'm aware of, I  
563 don't recall from reading it that suggested we should go back to a royalty on synthetic. I think that  
564 was accepted that that was appropriate by then. And, while there may have been a loss of revenue, it  
565 was something that just got accepted. So, those are some of the details that I remember.

566 AD: A couple of questions emerge; one of them is to do with of course when Canada's royalty  
567 regime is compared with other royalty regimes internationally. And also, the Heritage Savings Trust  
568 Fund, what it's worth versus what others are worth. Do you want to talk a bit about that?

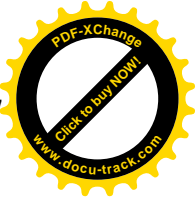
569 PRECHT: At the time, I think the one-third, one-third, one-third that we had as our target back in  
570 the late 70s maybe the early 80s even would have been seen as fairly onerous I think by industry. I  
571 think though that internationally if you go to other countries in the world, you will see that they have  
572 higher regimes. Many developing countries, I mean some of the highest earning places like Algeria  
573 for example. But, Norway is I think generally acknowledged as a country that has done the best job  
574 of managing its resource and of managing the economics around the development of that resource.  
575 And, Norway went through a lot of policy shifts over the years as well. But, where it landed in the  
576 late 90s, I believe, was at a 78% share to government. And, it's structured totally different from  
577 Alberta. So, it's hard to make the comparisons but if you compare the 78% with the one-third, one-  
578 third, 67 and we're actually today lower than the 67 it would tell you that we do get a lower share  
579 going to governments in Canada than you might in some other developed countries. And, in many  
580 less developed countries in particular, some of the OPEC countries like Algeria is what comes to  
581 mind first for me. It's very difficult to make those comparisons, though I'd have to say with the  
582 developing world countries I think there's an awful lot of stuff that goes on behind the scenes there  
583 that's not all that transparent and you never know quite what they're actually paying. And, there's an  
584 initiative now, the Tony Blair Initiative, extractive industries transparency to try to get that more  
585 transparent so people know what is being paid and what was received and what they should haven't  
586 gotten. I'm not sure we're quite there yet.

587 But, Norway being the prime example, we're certainly getting less. But, if you look across Canada  
588 the regime that we have now and this is post the new royalty framework regime that was introduced  
589 under Stelmach, we'd be fairly comparable with what you see we have other comparable regimes in



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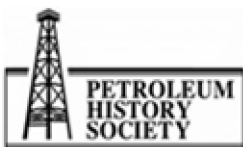
590 Canada to this net profit based royalty that I've described; on Canada lands, on the off-shore in  
591 Newfoundland and on the off-shore in Nova Scotia in particular. And, there's a small one in BC and  
592 it's not applicable to very much so it's not particularly relevant. But, we're fairly comparable with  
593 those regimes. We'd be higher generally than the regimes you might find in the US. Although, it's  
594 fairly difficult to compare, first of all because they're all Ad Valorem whereas ours are more based  
595 on the net revenue principle; so, it's a bit of an apples and oranges there.

596 But, in the US you've got such a hodge podge between state taxes and federal taxes depending  
597 which lands it falls on. Or, severance taxes which are state taxes which apply regardless of what  
598 lands they fall one. But, when there is a severance tax it's typically because there's a private royalty  
599 being paid and we know very little about those private royalties that are in the States. So, it's very  
600 hard to make those comparisons. But, I also want to jump to the one in twenty-five that came out of  
601 the oil sands, there were a lot of people then when the industry took off the way it did that really  
602 thought we'd given away the farm and that we weren't getting enough. And, I know because had  
603 some of that brunt there too when I was still in the department. The oil industry wasn't complaining  
604 about it. But, I know that there were people in government, back-bencher that I might encounter  
605 that you would hear these comments from. And, certainly many people in the public that were  
606 saying that.

607 Well, Ralph Klein refused to address this. He was pushed even by the Auditor General and did not.  
608 But, when he stepped down and the leadership race occurred to replace him, the three final  
609 contenders all said that they were going to do a review of royalties. So, Stelmach was the winner but  
610 this wasn't his idea in isolation from anybody else. Every one of them and Jim Denning and who  
611 was the third contender that I can't even remember now, both said that they were going to do that  
612 review. I think it might have been Ted Morton if I'm not mistaken.

613 AD: Yes, it was Ted Morton.

614 PRECHT: One of the things that Stelmach did is he broadened the scope for it and said, "And,  
615 we're going to look at all royalties not just oil sands." And, that's kind of interesting because all of  
616 the controversy that came out of that was with the conventional side. There was very little  
617 controversy as I recall on the oil sands. In fact, although there were some tweaks in what the royalty  
618 panel posed, they wanted to call part of it a severance tax for some rather arcane, obscure reasons. I  
619 don't think it was necessary and probably not appropriate in terms of my understanding of what a  
620 severance tax would be. But, what Stelmach introduced I think in 2007, I think the royalty panel  
621 reported in 2006 and he introduced his new royalty framework in 2007, was a price sensitive royalty  
622 pre-payout that would range from 1% to 9%. And, that was based on the price of west Texas  
623 intermediate, which is the benchmark price in North America. And, it floated between 1% and 9%  
624 depending on whether that price was at \$55.00 at the minimum to \$120.00 the maximum and pro-  
625 rated in between. And then, similarly, post-payout he raised the rates from flat 25% to 25% to 40%,  
626 again based on west Texas intermediate.



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627 As soon as he did this, we had an economic meltdown including oil prices. And, it also happened at  
628 a time when cost escalation had been extreme. And, I'm not sure the royalty panel quite recognized  
629 that side of the equation. But, there was general kerfuffle in the oil industry about this, "That look,  
630 we can't pay higher royalties." Even though, I think the fact of the matter is that most of those  
631 royalties were lower under the structure that they brought in. But, there was a big kerfuffle about it.  
632 But, one of the things that did not get touched was the oil sands royalty. When he came back in  
633 2009 to make revisions on the conventional royalties and change the formulas and the matrix there,  
634 the oil sands royalty remained intact.

635 So, that has survived then and very close to what the royalty panel proposed, not quite identical.  
636 And, that hasn't been very controversial I think it's fair to say. If the industry were strongly opposed  
637 to it they put all of their efforts I think into the conventional side, not into the oil sands side. And,  
638 so we are getting a higher share clearly than what came out of the Task Force recommendations and  
639 what came out of the first round back in 1996, '95-'96-'97. And, I don't hear any major complaints  
640 from industry. In fact, if there are any complaints it's from some sectors of the public that might still  
641 be saying we still aren't getting our fair share and that's probably comparing us again to countries  
642 like Norway where they are getting a somewhat higher share.

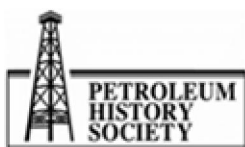
643 AD: The media of course, picks up simple messages and one is that Norway is benefiting more and  
644 that their equivalent of the Heritage Savings Trust Fund is excess of \$300 Billion or whatever it is.  
645 And, ours is a paltry sum. Just to go back, I think that the way that you've described the work of the  
646 Task Force it's pretty unique to have the two levels of government and the companies and the  
647 Chamber of Resources which I suppose is the professional association of the resource...

648 PRECHT: The catalyst for bringing the companies together.

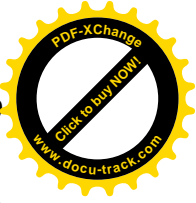
649 AD: Yeah, actually working together at that level and coming to a consensus on a taxation and  
650 royalty regime. Would you say that it's unique and unprecedented in terms of your knowledge of this  
651 and not only in Canada, but in other countries?

652 PRECHT: I'm not aware of other examples of that nature. So, that might suggest it's unique. I know  
653 that all countries have industry associations. And, interestingly if you look at Norway, there is a  
654 Scandinavian background there and one of the stronger associations is actually the Labour  
655 Movement in terms of negotiations on oil development policy. But, they do have an off-shore  
656 operators association in Norway and the in the UK. And, I think they're very active in representing  
657 their industry as well. But, I think you're right and I think it was probably because we had this  
658 resource that was just sitting there. And, there was a developing consensus that we wanted to see  
659 some economic benefits from this and that we had to all get around the table together. And, that  
660 there was a role for governments to play as well as industry in that. So, I'm not really aware of other  
661 examples of that nature. So, it could very well have been unique.

662 AD: Now, as a resource economist of course you know that the international scene and the  
663 economy of the world and the health of the economy of the world of course impinges on what



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664 happens at the local, provincial and national scene. In Alberta, the Federal/Provincial tensions  
665 certainly around resource industry which of course are a shared responsibility and sometimes over  
666 simplify things and don't take into account the world scene. And, I'm thinking that you've now  
667 experienced in terms of your professional life, growths and declines.

668 PRECHT: Booms and busts.

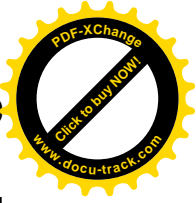
669 AD: Exactly. And, we're now moving into another iffy period and Premier Redford in terms of her  
670 address to the Province with respect to the decrease in oil sands revenues has talked about the  
671 bitumen bubble. As an economist, what do you think about these concepts, because it's still really  
672 about the price that you get for the resource? Do you want to talk a bit about today and based on  
673 your knowledge of the history?

674 PRECHT: Economies that rely on natural resources are more vulnerable to boom and bust  
675 phenomena. So, it requires a careful fiscal management I think to be able to protect your economy  
676 from getting caught in those cycles and trying to reduce the impact on the rest of the economy.  
677 Now, first of all, we are price takers and although, it matters an awful lot to us there is very little that  
678 we can do for the most part in terms of determining prices that we get paid for our resources.  
679 Although, we are seen now as jurisdictions that are having major contributions to supply which has  
680 some price implications for the global price. It doesn't happen quickly or not easily discernible to  
681 what portion of that might be attributable to us.

682 In terms of the bubble that's being referred to, there are couple of things I want to get back to here,  
683 Adriana. But, in terms of the bubble that's being referred to, that would be predominately caused by  
684 the fact that we've got so much production coming on in Alberta but also in Northern US  
685 conventional production. And, the refining markets in what's called Pad 2 which is Northern US are  
686 full of production that comes from within that pad or from Canada. In order for that to find a  
687 home, it's got to get outside of that. And so, the pipeline structure has to change and we have to be  
688 able to move all this incremental volume outside. It wasn't designed for that in the first place. And,  
689 so there are so major bottlenecks that have developed and developed in part probably because this  
690 production has come on faster than people thought. If you asked people five years ago how much  
691 production they thought you might see in 2012 or 2013 from the Bakken. I don't think you would  
692 have got the number that is actually occurring today and probably the same thing for the oil sands.  
693 So, we need to be able to get the pipeline capacity expanded to accommodate it but there have also  
694 been some hiccups along the way in getting those pipelines approved. I think if Keystone had  
695 proceeded as originally proposed I think would it not have been completed this year and that would  
696 have been a major factor now. But, we still don't have approval for that which is a major pipeline  
697 that will move a lot of that bottlenecked crude out of that Northern Pad 2 area. And, while there  
698 might be anticipation and I have to say I'm bullish that pipeline will get approved because it's not  
699 just Canadian crude that it's bottlenecking, it's also all the Northern US crude. So, it's in their own  
700 interests as well as Canadian interests.



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701 So, it's just not a Canada oil sands issue. But, even there you're talking about 2015 is what I've read  
702 now as to when that might actually happen. So, you're stuck with living with that reality here then  
703 for the next couple of years. That's one of the reasons why all of the interest in the Gateway Pipeline  
704 which would open up a new market for us by being able to move our crudes into Asian Pacific  
705 markets. And, we're talking periodically. I just saw something yesterday again about pipelines that  
706 would extend across Canada all the way into Atlantic Canada; which under normal circumstances I  
707 would suggest probably doesn't make a lot of economic sense. But, under the current circumstances  
708 where you can't get it anywhere else would make some economic sense.

709 Now, once you can get it somewhere else are you going to make those investments and then say,  
710 "Whoops, we shouldn't have done that?" I'm a little bit concerned about that because I think if you  
711 open up the access to the US Gulf and if you open up the Pacific access you may not want to be  
712 shipping all the way to Atlantic Canada. So, you've got some temporary bottlenecks here that are  
713 creating this bubble that we're seeing so much about in the press in the last couple of weeks here.  
714 And, we always knew that bitumen is an inferior product in the sense of the level of refining  
715 required to get the kind of products out of it that we consume in North America so it requires more  
716 refining. It's going to sell for a lower price. We always knew that. That's not news or anything new.  
717 But, the discount that's happening as well in terms of the bottlenecks is what we like to think as a  
718 temporary one and that is what has kind of blown apart here in the tail-end of 2012. And, my  
719 looking at the numbers here, I haven't really looked at 2013 yet.

720 The January numbers will be out, well early February we'll see what has happened there and maybe  
721 it'll make some assessment of, has this bubble that developed in December persisted through  
722 January or not. And, I'm sure people that are following it on a day to day basis would have an  
723 answer to that today. I don't have that answer. But, the other thing that you alluded to earlier is on  
724 sort of the revenue management side of it. In terms of Norway having socked away all of its money  
725 and Alberta having put a small amount back in the late 70s and early 80s in the Heritage Trust Fund  
726 and nothing since. And, yeah, I think bad revenue management. And, that's not something the  
727 Department of Energy had any say in or anything to do with particularly. But, Alberta Governments  
728 have made the decision and it's based on the Alberta public I think telling them this that we want  
729 lower taxes, thank you.

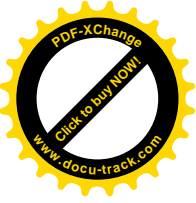
730 If you go to Norway you will see some of the highest taxes in the world. And, they're used to that  
731 and their government has basically said to them, "We're not lowering taxes. We don't want this  
732 industry to be disrupting our revenue management system." All of the revenue from the oil industry  
733 including the profits they get out of Stat Oil goes into a special fund. And, they take off about 5% of  
734 that a year, is my understanding and it goes into their general revenues. And, that's sort of like an  
735 interest rate that they can use and the rest of it gets socked away.

736 AD: So, what you're saying is that it's a different revenue management regime.

737 PRECHT: It's a different mentality I guess then that we've said, "We want in lower taxes today. We  
738 want our money today." And, in Norway they are prepared to have some delayed satisfaction I guess



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739 from this and sock it away and it's there for them. And, the consequences are they are far less  
740 vulnerable to the cyclicity that we see here. And, their government services and again, the  
741 Scandinavian model would be there is a very strong level of government service provided in the  
742 economy relative to what we see in North America. They're not in jeopardy in the same way as ours  
743 are here, because we've been relying on those partly for low taxes. So, we don't have very high taxes  
744 and when the other part that we rely on, the fund expenditures on an ongoing basis will now shrink,  
745 we don't have the tax base to make up for it. We don't have the tax rates on the tax base. We've got  
746 the tax base and we don't want to tax it though.

747 AD: You have over-reliance on royalty revenues from natural resources to make up that shortfall.

748 PRECHT: We're spending it as it comes in as opposed to saving it, yeah; either spending it directly  
749 or spending it in the form of lower taxes. So, I would be one of those Albertans that would say, I  
750 think we have mismanaged this. I think when Peter Lougheed established that Heritage Savings  
751 Trust Fund in the late 70s, I think he was on the right track. And, even he reduced the portion that  
752 got transferred to it in the 80s as the economy went into decline. And then, when he left just very  
753 shortly after he left, was he pressing it, did he see this, I don't know. The OPEC flooding of the  
754 market or the Saudi Arabia had been flooding the market which caused prices to fall and we haven't  
755 seen anything go into that. In fact, we take the interest out on an annual basis so it doesn't even  
756 grow.

757 AD: So, under his successors, Getty and then Klein, they were basically dealing with recessionary  
758 circumstances but when Klein then with the various cuts to federal budgets, lack of investment and  
759 infrastructure and then the industry revenues beginning to pick up in terms of the oil sands. That  
760 dividend payout to the public of Alberta, what did you think of that gesture?

761 PRECHT: Personally, it wouldn't have been something that I would have supported. And, I think it  
762 turned out to backfire a bit on Ralph Klein as well. I don't think that the general populace was very  
763 impressed with it. Although, surprisingly we had Danielle Smith as leader of an opposition party that  
764 was fairly successful in the last election. She was saying that's would they would do as well if her  
765 party were in power. So, I'm not sure if that was an important factor.

766 AD: Why not put it into the Heritage Savings Trust Fund. I mean if you really are in a surplus  
767 position because of a certain industry, so that initial instinct to sock away for a rainy day basically  
768 went by the wayside not only because of recession, but also because of policy thinking.

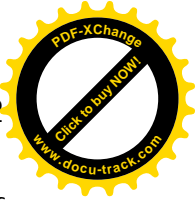
769 PRECHT: Yeah. And, a mentality that has developed here in Alberta that we deserve low taxes and  
770 that we're not prepared to see these shifts in taxes is seemingly where we're at here in this Province.

771 AD: Whether it's the health care system or education or social services that it isn't going to be the  
772 tax base that are going to directly support growing expectations. That is has to be through the  
773 resource revenue simplistically put.

774 PRECHT: That's what happens here.



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775 AD: I want to go back to something that you said with respect to the royalty regimes. And that, if  
776 you don't have that refining capacity or upgrading capacity in Canada, that that basically diminishes  
777 the revenue stream from those sources.

778 PRECHT: Well, the upgrading portion of the industry doesn't pay royalty anymore. So, it doesn't  
779 affect the royalties at all in a direct sense. In fact, I might argue that if we had the royalty still on the  
780 synthetic part of the barrel that could be a deterrent to upgrading here in Alberta. But, the fact is  
781 that very few are planning to build upgraders today. We have one under construction that is based  
782 on Alberta Government policy; the bitumen royalty in kind upgrader that's being built by Northwest  
783 which is a private company in joint venture with CNRL. But, let me just comment on that if I could  
784 quickly.

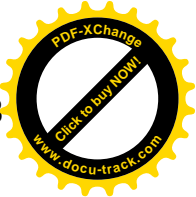
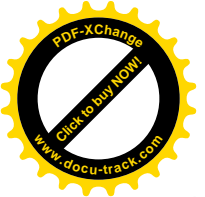
785 If you look back at about 2006 at the ERCBs report ST98 which is the annual publication they put  
786 out, very valuable piece of work that they do there, the statistics and the forecasts that they provide.  
787 And, basically they were saying at that time that 70% of the incremental production that we were  
788 going to see over the next decade and their forecasts go out every decade, was going to get upgraded  
789 in Alberta. Basically, that's what industry was telling them and I think if you looked at the CAP  
790 forecasts in 2006 and they don't keep them on their website, I don't think I could find that now. I  
791 might have saved something because you can download them when they're on there. I might have  
792 something going back then -- would say the same thing.

793 Well, that was 2006. Later in that year, in 2007, 2008 all of a sudden everybody was abandoning  
794 those plans to upgrade in Alberta. And, the reason that they were abandoning them was because we  
795 had significant capital cost escalation. We had so much investment in the upstream oil sands part of  
796 the business and what we had was a major labour shortage.

797 People talk about capital shortages here, I don't think we've got a capital shortage, our principal  
798 shortage is labour. And, the capital can come that's easier to import than labour is and so you have  
799 the same projects competing with each other for the same people and guys are going to build  
800 upgraders and they look at each other and say, "Do I want to have to compete with those guys? It's  
801 the same kind of labour we use to build an upgrader for a lot of these plants. I think I'll build that  
802 somewhere else, than you." And, so they all migrated south of the boarder and all of their upgraders  
803 are now located -- well, the few in the Pad 2 area are in the mid-west but principally, along the Gulf  
804 Coast. And, it's because it's cheaper to build them there because you don't have to compete for the  
805 labour in the same way as up here. They may have some synergies there too. I think we've got lots of  
806 potential synergies for upgrading in this Province now. We've got a well-developed industry here  
807 where you can integrate with other upgraders. There are still some refiners that you can integrate  
808 with here as well, the same way you're doing in the Southern US. So, I don't quite buy the argument  
809 that there are synergistic advantages there that we don't have. And, clearly there are economic  
810 benefits where it's cheaper to ship synthetic crude oil than it is to ship bitumen. Partly, because it  
811 flows more readily but also because bitumen has got to be diluted to ship, so 30% of every barrel  
812 that you're shipping is not bitumen it's a diluent. And, what do you with that diluent when it gets to  
813 the other end? You strip it out and send it back up here. So, we're paid to ship that stuff two ways



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814 because we don't have enough here. That's just a dead weight loss to the economy to have to do  
815 that. And, in fact, it's the bitumen producer that pays 100% of that. So, we lose a little bit of royalty.  
816 They lose a little bit of their economics from doing that.

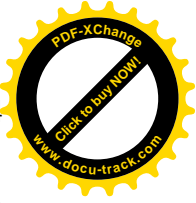
817 But, as long as the policy is unfettered development, you want to put your money up, come and take  
818 your chances. That is the risk that we will be facing is that you'll have that level of investment. And,  
819 this is again if you listen to Peter Lougheed and some of his latter day speeches, he was making  
820 comments to that effect. And, I recall in particular the speech that he gave here at the University of  
821 Alberta in 2007, his comment and this was not part of his -- in fact, you cannot find his speaking  
822 notes. But, his comment (and this regarded by Mark Lisak in his, *Insight into Government*) in  
823 response to a question was: "It's out of control and we're all going to pay a price for it." And, he was  
824 talking about that inflation that's happening and what the economists call a Red Dissipation as a  
825 consequence of that. And, he went on to say that, 'If he were in charge there would be one mega  
826 project per year approved and that would include an upgrader.'

827 AD: It's interesting hearing him talk towards the end of his life around issues that like but also, the  
828 environment. Initially, right at the beginning of Great Canadian Oil Sands and Syncrude, every six  
829 years you were supposed to have one of these mega projects which included an upgrader. Now,  
830 there are some, and of course, right now, voices crying out in the wilderness who would say that you  
831 need to keep the upgraders in Alberta in terms of high employment, construction, trades and then  
832 the people who actually work in the upgrader and that's important to a buoyant Alberta economy.  
833 And that, shipping out letting the upgrading happen elsewhere diminishes that job creation and all  
834 of those other aspects that are a benefit to the Alberta economy and the tax base.

835 PRECHT: I don't think it has diminished the Alberta economy in quite that sense in that we've had  
836 more bitumen production than we can comfortably absorb in our economy. So, it's not as if the  
837 economy is going half-speed in the absence of these things. We're going more than full speed  
838 probably. But, it has definitely changed the structure of that economy. And so, the question would  
839 be well would that be a better structure if we instead of just producing the bitumen barrels and  
840 shipping them out were to produce them and upgrade them and have more depth to the industry  
841 here, it would definitely have to imply a smaller, lower level of bitumen production in an aggregate  
842 in order to be able to accommodate. So, we would get lower royalties because royalties are only on  
843 the bitumen side of it. We would get other economic benefits from the upgrading here but they're  
844 not going to be in the form of royalties. So, partly what drives the government on this as well is  
845 because there are no royalties on the upgrading they are less concerned about where that happens.  
846 There are many people that would argue that having depth to the economy in terms of what here  
847 would be the forward linkages of value adding to it gives you a more stable economy. And, if you  
848 look at the oil industry, well traditionally they were all integrated producers. And, they were into  
849 production, refining and marketing of their products, not as much anymore. But, there is certainly  
850 an argument for that and I think the question then is, is the diversity of the economy more valuable  
851 to you and going to give you a more stable economy over the long-run than to get all of the activity  
852 right in the upstream even though that is the portion that is going to generate royalties for you.



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853 AD: Now, an economist's perspective on -- the Northern Gateway of course is simply put, it's  
854 getting it out to other markets where we can get a higher return versus if we continue to sell to the  
855 US then we're locked into the price structure that has been agreed. Do you think that is desirable to  
856 sell to new markets?

857 PRECHT: There's no question of that. I think that's almost a no-brainer. Now, having said that I've  
858 got good friends in BC who are adamantly opposed to this pipeline. And, are in fact intervening and  
859 speaking against it. And, I understand why. And, I think there are some risks there that  
860 unfortunately, Enbridge is the developer of that pipeline and have been their own best enemy in  
861 exacerbating those risks and the situation for themselves. I mean, 17 hours of bitumen running into  
862 the river in Michigan was not only an environmental issue but a public relations disaster for them.  
863 And, I don't know how quickly they can recover from that.

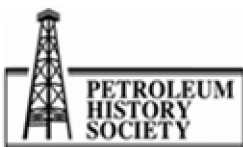
864 Well, the other thing is that just in the course of that summer, it wasn't just Enbridge but there were  
865 so many pipeline issues here in Alberta. And, the people in BC just looked at this and said, "Well, do  
866 we really want to see this going across our province?" And, it's not just the pipeline there but it's  
867 also then, you've got the marine issues. They remember too well the Exxon Valdez that went  
868 aground, that was off Alaska. And, yes, we use different kinds of tankers nowadays then were done  
869 then and maybe we've learned some lessons from then. But, I wouldn't be betting on the Northern  
870 Gateway today, I guess is what I'd say based on what I see.

871 AD: And, it's interesting a petroleum engineer retired elderly but held some very important positions  
872 within the oil sands industry has brought up something which no one -- I haven't heard it brought  
873 up, you may have. That, in terms of bitumen and diluent being shipped, that spill would be far more  
874 disastrous for the environment than the Gulf Coast spill simply because bitumen has a much larger  
875 carbon footprint, is how expressed it.

876 PRECHT: Well, I think what he could be saying too, if I would put in my simplest of terms because  
877 I'm not an engineer, would be that the old adage about oil will float on water and oil is lighter than  
878 water, bitumen is not.

879 AD: Exactly.

880 PRECHT: Bitumen will sink. And so, it's going to be harder to clean up. I mean the Gulf disaster  
881 was a problem and I don't diminish that at all. They were able to clean some of it up because the oil  
882 stays at the surface. And, that was somewhat true of Valdez. In fact, once it goes onto the shore  
883 well, you've still got a big problem. And, if you get an oil leak on land, I don't know whether  
884 bitumen is better or worse on land. But, I know on water it's definitely an issue because it will sink.  
885 And, you could say, well but we have to have a blend that makes it lighter. But, it's a blend, it's not  
886 an emulsion. So, an emulsion won't break but a blend will. And, so I think it's going to separate and  
887 yes, you could skim off the diluent portion maybe but the bitumen I don't think you're going to  
888 recover so easily. So, I think they've got a legitimate concern there. I say, I think, because again I'm



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889 not an expert on that part of it I'm just surmising based on my understanding of the physical  
890 characteristics.

891 AD: So, going back to the whole royalty regimes and taxation and putting on your futurist cap,  
892 where do you see things going in the next 20 years with respect to the oil sands?

893 PRECHT: Well, there are a couple of scenarios, one of them relates to global oil supply and what we  
894 have seen in the last six years or so in North America on natural gas supply is that it has exploded.  
895 We've got gas coming out of our ears in North America right now. And, that it has knocked the  
896 price down to extremely low levels. Well, the Bakken crude is tight sand oil, some if it involves  
897 fracturing in the same way as shale gas does. And so, the question will be is there a potential for  
898 shale oil and I've got to be careful using that term because shale oil typically means something  
899 different than shale gas.

900 But, oil from tight formations then to become unlocked probably using hydraulic fracturing  
901 techniques and results in a growth of oil supply that could cause oil prices to crater in the same way  
902 that gas prices have in North America. And, gas prices globally I think are going to crater as well. As  
903 soon as North American gas starts leaving the continent and that will be happening I think, because  
904 there LNG projects that are being approved. The so-called Asian premium is going to dissipate very  
905 quickly I believe. That could happen on oil as well and that is one of the risks for oil sands  
906 producers because they are probably higher cost than the shale oil producers or the light and tight  
907 oil producers. And so, the existing guys that have sunk their investments, they'll continue to  
908 produce. But, new investments will be definitely at risk.

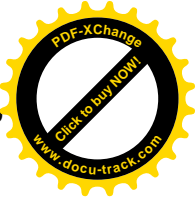
909 So, that would be one of the scenarios and I guess the other scenario is just are we ever going to get  
910 serious about climate change. And, if we do and countries start imposing carbon taxes the whole  
911 purpose of a carbon tax is to reduce our consumption of carbon based fuels. Well, oil and gas and  
912 coal are all carbon based fuels and if the intent is to reduce them, you're going to knock down the  
913 price. And, it maybe that the price the consumer pays will be higher, that is part of what is creating  
914 this affect, but it's higher because of the carbon tax that we're putting on. We're putting that wedge  
915 between the consumer and the producer. And so, there is a potential scenario where the oil sands  
916 producers could get hit as well. And, as would all oil producers, not just oil sands. Oil sands would  
917 get hit a bit more in the sense that they are not only producers but they are also consumers.

918 So, if all consumers pay carbon taxes to the extent that you consume the energy to produce energy,  
919 you're going to be paying more for that energy you consume. And, we've had studies here that show  
920 maybe oil sands are not that much more energy intensive than other oil production in the world.  
921 But, it still is relatively intensive and among the most intensive. So, they'll feel it somewhat more  
922 than most other oil producers, put it that way.

923 AD: And, of course, now the environmental movement of the 70s and 80s is very different from the  
924 environmental movement of today, which really uses the internet and other mass media very, very  
925 cleverly and actively. And that, of course, the reputation for dirty oil and going back to tar sands.



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926 That is at play and that is the chord of public opinion that is now demonstratively what is most  
927 important.

928 PRECHT: And, that's certainly at issue in the Keystone approval. And, perhaps in the Gateway as  
929 well that are affecting that, this dirty oil image.

930 AD: And, neither the companies nor the government can afford to ignore the chord of public  
931 opinion.

932 PRECHT: Yeah. I would say that the Alberta Government maybe has viewed this too much as a  
933 communications issue and not a real issue that has to be dealt with beyond just the communications  
934 aspect of it. I think that there is growing pressure. There are studies coming out now and the  
935 argument always was, "Well, these are natural occurring sediments and things like that." And, there  
936 is evidence now coming out that, well maybe not quite as natural as what you have been suggesting  
937 and that there are some consequences here. And, we need to address these things. I'm speaking a  
938 little bit out of my area of expertise here. So, I don't want to go too far down or go too far out on  
939 any limbs here either.

940 AD: Controlling development, royalty regimes to ensure that government gets its fair share are  
941 significant. But, when you get a radical shift in terms of at least in the developed world, in other  
942 words the Western Democracies as to trade-offs. That is going to have implications for future  
943 developments.

944 PRECHT: I don't know what more to say than to agree with you on that.

945 AD: Because, when you started and I mean, you look at your career ark where you started, this is oil  
946 sands came into ascendance. I mean, you were the first Executive Director of Oil Sands and  
947 Upgrading.

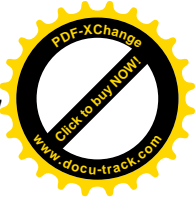
948 PRECHT: When I started it was still tar sands by the way.

949 AD: Yeah, do you want to talk a bit about that?

950 PRECHT: I think it was a very deliberate strategy as I would understand it of Peter Lougheed to try  
951 to improve that image. And, this would have been an image thing, I think at the time. But, he  
952 recognized that tar sands did not have the right ring to it as a name for the resource. And, when he  
953 created AOSTRA, it was oil sands. When he created the Alberta Oil Sands Environmental Research  
954 Program, I think it was called. And, the ERCB started to use that term, the Oil Sands Conservation  
955 Act. And, I don't think the word Tar Sands would show up anywhere in the ERCB or any  
956 Government of Alberta legislation. Interestingly, I used to go to some of the UNITAR conferences  
957 which were international conferences of heavy oil producers basically. And, people in other  
958 countries, like in the United States still use the word "Tar Sands". But, it wasn't used here in Alberta.  
959 But, it's come back into vogue. And, I think one of the key people that bring it back into Vogue is  
960 that writer, Andrew Nikiforuk who wrote a book and he has very strong views, negative views



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961 towards the resource development and the environmental impacts of it. And, part of the way he is  
962 strengthening his message is to use this more pejorative term to describe the resource. And, more  
963 and more people are using it and probably those people are those that are opposed to the resource  
964 development associated with the resource development there.

965 AD: Well, Mary Clark Sheppard, Karl Clark's daughter pointed and in the book, Oil Sands Scientist,  
966 the first volume that looks his letters and his contributions to the industry. That basically, it was  
967 Clark who recommended to Premier Manning in the late 40s and the Blair Report and the First Oil  
968 Sands Symposium, that Tar Sands was a misnomer. For the scientists, it was bituminous sands. Tar  
969 is a different product entirely that was a popular term. And, it wasn't pejorative. It was just  
970 descriptive. But, Karl recommended to Premier Manning that since he had categorically proven that  
971 the bituminous sands were a source of oil, they should be called, Oil Sands. So, that usage started in  
972 the late 40s, early 50s. But, I think you're absolutely right in terms of Premier Lougheed definitively  
973 making that change in terms of the...

974 PRECHT: Okay and I think what you're saying here is telling us where he would have gotten that  
975 from and he picked up on it, whereas Manning may not have. And, I just don't know enough  
976 about...

977 AD: And, I've actually seen a map and this is research. This would have been in the war times  
978 period, it appeared in the Oregonian Newspaper and it looked at the resources in Northern Oregon.  
979 And, well the Pacific Northwest and then the entire Alberta and Northwest Territories, because, of  
980 course, there the Camel Project as well. But, you've got the label Athabasca Oil Sands.

981 PRECHT: Really? Okay.

982 AD: So, that terminology was around.

983 PRECHT: It wasn't just Lougheed.

984 AD: That's right.

985 PRECHT: Well, I associate it with -- but, okay.

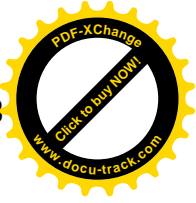
986 AD: And, he did of course, because these revisionist histories for aspects and that for the  
987 environmentalists, Peter Lougheed using it meant that he was trying to clean it up. When in fact, at  
988 that point, he didn't have to clean it up and there was no substantial environmental opposition to  
989 the development. So, that branding it as the "Oil Sands" meant that it was a legitimate oil product or  
990 source of oil.

991 PRECHT: You still hear the stories about Peter Pond using it to caulk his canoes...

992 AD: Exactly.



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993 PRECHT: And, that's sort of where the tar concept comes in.

994 AD: Exactly.

995 PRECHT: I don't know how true that story is even. But certainly, popularly told so...

996 AD: Well, you certainly had an interesting career. And, made significant contributions, I mean in  
997 terms of the economic development and exploitation of the resource. And also, the proprietary  
998 aspect that the Government of Alberta, the Federal Government had; I mean their role in terms of  
999 ensuring that Canadian Citizens benefited from this resource.

1000 PRECHT: I have been blessed to have been in the right place when things have been happening and  
1001 it's been interesting.

1002 AD: Now, your work has continued internationally. Do you want to talk a bit about your consulting  
1003 career?

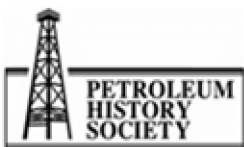
1004 PRECHT: I've done a little bit of work in oil sands since I left, but it's not a major part of my  
1005 consulting activity. The area of economics where I'm most comfortable is in dealing with petroleum  
1006 fiscal regimes. And so, that is an issue in almost any country in the world where they have petroleum  
1007 and I've been fortunate to have worked in a few of these places and try to help them offer some  
1008 advice. And, my perspective on these things is much broader now than it would have been back in  
1009 the 80s and 90s when I was here in Alberta. But, it was built on that.

1010 When I went to university, there was nothing called, Energy Economics. In some places they had  
1011 some resource economics. But, people weren't very focused on petroleum fiscal regimes and it  
1012 wasn't a popular topic. I couldn't have majored in that by any stretch here in Alberta at the time, no.  
1013 I think you clearly could today. They've got some good energy economists here and in Calgary as  
1014 well. But, everything that I did is stuff that I picked up along the way. And, while I call myself an  
1015 energy economist today, it's not because of anything that I studied academically that would have  
1016 related to that.

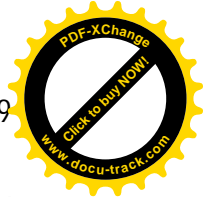
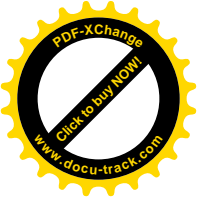
1017 AD: It's what you learned on the job.

1018 PRECHT: I've learned it all on the job, yes.

1019 AD: And, of course, environmentalists and non-environmentalists make many good points in terms  
1020 of protecting the environment and wise use and everything else. But, the reliance on petroleum, all  
1021 types, is not going to go away. And then, it's simplistic to think of it strictly as an energy resource  
1022 because you look at the petro-chemical industry and it's huge and impacts on every aspect of our  
1023 lives. So, I don't think the need for energy economists or even petroleum economists is going to  
1024 disappear, is it?



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1025 PRECHT: No, I don't think so. And, I would agree that even in the most carbon constrained  
1026 scenarios it's not that we're not consuming more carbon based fuels, we're figuring ways of  
1027 managing the carbon emissions from those fuels. And so, we haven't come up with the replacement  
1028 for it yet. And, I don't know what that is. I mean, people talk about hydrogen which could replace it  
1029 but it requires an awful lot of nuclear power in order to recover it. And, after the Japanese incident  
1030 there, we're not doing much in developing nuclear. Well, not much in North America and Europe.  
1031 But, maybe in China and India, a little bit of it. But, I don't think that one Pana Sea that might have  
1032 been on the horizon there and not a short-term thing there either by the way, is looking less of a  
1033 likelihood as well even today. So, I don't know what that alternative would be.

1034 AD: Now, is there anything else that you'd like to talk about that I've missed?

1035 PRECHT: I think we've covered a lot of ground. I'm not sure if there is anything in particular that I  
1036 can think of to add here right now.

1037 AD: Well then, thank you very much for agreeing to be interviewed.

1038 PRECHT: I'll add one more comment and that is that one of the things that we deliberately tried to  
1039 do with the department when I was there was to record some of this in some papers that we  
1040 presented in various UNITAR conferences. And so, if you want to get sort of the fiscal history of  
1041 the oil sands, if you go to some of those papers in UNITAR conference and my name is on a  
1042 number of them along with some of my colleagues, in far more detail than what I've accounted to  
1043 you here this morning. It's there.

1044 AD: And, those would be what period?

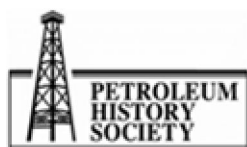
1045 PRECHT: Earliest would have been in 1988. 1988 through to -- I think the last UNITAR  
1046 conference might have been '96 or '98, if I recall.

1047 AD: One final observation, I mean, if when you cease your consulting your career and that you have  
1048 materials like these. The Glenbow, of course, is archives/repository. So, you might consider  
1049 donating materials to the Glenbow archives

1050 PRECHT: Okay, thank you. I'm not sure if I've got anything in my possession that wouldn't already  
1051 be out there. But, okay.

1052 AD: I'm sure you'll now look at these materials that you have in a new way.

1053 PRECHT: I have a friend, a former colleague who was in charge of the Land Tenure System who  
1054 was very involved in the oil sands. And, I know he moved from Edmonton a few years ago and he  
1055 was going through his stuff, "Should I keep this, should I chuck it." He offered me a bunch of  
1056 things and I declined simply because my office is so chalk full already.



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1057 AD: Well, you see the fact that government libraries have these doesn't mean that the Glenbow  
1058 archives have them, the tangible and that they are available online. I think that you still need a  
1059 repository of the print material. So, that's why I always mention it to anyone who I interview.  
1060 Anyways, thanks. I've learned a lot. I'm not an economist and certainly, you've shared a great deal of  
1061 amazing information and I thank you.

1062 PRECHT: It's been fun.

1063 [END OF RECORDING]



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