

The Petro-Loonie and the Rise of Alberta
BDO Dunwoody/Chamber Weekly CEO/Business Leader Poll
by COMPAS in the *Financial Post*
for Publication July 25, 2005



COMPAS Inc.
Public Opinion and Customer Research
July 25, 2005

1.0. Introduction

This week's web-poll of CEOs and business leaders explores why there is a growing conviction about Canada's becoming a world petroleum power and how this ought to impact on Ottawa's relations with the U.S., China, and Alberta.

Canada's business leaders and CEOs foresee the average price of an oil barrel rising to \$66 over the next 5 years and to \$79 over the next 10 years. They believe that Canada's promising future as a petroleum exporter is made possible by high oil prices, turmoil in the Islamic world, and our country's proximity to the U.S.

Business leaders anticipate that Alberta will become an even wealthier province, there will be increasing conflict between Alberta and central Canada, and some large financial institutions may relocate to Calgary.

The overwhelming majority of respondents favour the U.S. over China in any competition between these two countries for a position in the Canadian oil sector.

These are some of the key findings from this week's web-poll of business leaders and CEOs, sponsored by BDO Dunwoody LLP and the Canadian Chamber of Commerce.

2.0. Average Oil Barrel Prices Expected to Rise over the Next 5 and 10 Years

CEOs and business leaders predict that the price of a barrel of oil will rise to an average of \$66 over the next five years and \$ 79 over the next ten, as shown in table 1.

Table 1: (Q1) As you know, oil has been hovering around \$ 60 a barrel for some time. What do you guesstimate will be the average (nominal, unadjusted) price per barrel over...

| | \$ a barrel | DNK |
|-------------------|-------------|-----|
| The next 5 years | 66 | 2 |
| The next 10 years | 79 | 3 |

The following verbatims capture respondents' views on increasing oil prices:

Oil prices will be extremely volatile, with the three main reasons being: near-balance between world demand and supply with an



increasing shortfall in supply; terrorist attacks; and hedge fund speculation.

As the price of crude oil rises, we will finally be forced to seek alternate fuels, in which the free world is many years behind. Lowering the need for oil, we can have more stability in the world and stop being held hostage by ...exporting countries such as Saudi Arabia. Taking away their power to blackmail, we should see more stability in these countries as well and probably more opportunity for democratic governments.

3.0. Canada's Rosy Future Driven By High Oil Prices, Islamic Turmoil, and Proximity to the U.S.

The vast majority of respondents (90%, table 2) believe that talk of Canada's future pre-eminence in the oil market is driven above all by the price of oil at \$60 a barrel. Other contributing factors are the vulnerability of Islamic oil exporting countries to turmoil (84%), thereby making these nations a less reliable source of oil and place for oil companies to invest, and Canada's proximity to the U.S., the world's largest oil importer (88%). These circumstances, according to respondents, help explain the new economic and political significance of Canada's oil reserves, which are immense but have been expensive to extract.

In their volunteered responses, many CEOs and business leaders anticipated major economic gains for Canada but not all were convinced that this would lead to increased political power for our country. As one respondent put it,

I do not see Canada becoming "a world scale player in oil" any more than Norway or the UK, because I do not see Canada playing the oil card in international affairs. There is no question in my mind however that Canada will increasingly be seen as a key player in a North American context as the U.S. recognizes that its hydrocarbon security requirements can be met to a large extent by its Northern neighbour.



Table 2: (Q2) Please score the importance of each of the following factors in explaining why there is increasing talk about Canada's becoming a world petroleum power. Kindly use a 7 point scale where 1 means not an explanatory factor at all, and 7 that the factor does explain why there's talk about Canada as a petro-power. [RANDOMIZE]

| | Mean | 7 | 6 | 5 | 4 | 3 | 2 | 1 | DNK |
|---|------|----|----|----|----|----|---|---|-----|
| At \$ 60 a barrel, Canada's immense reserves become economically viable | 6.0 | 40 | 34 | 16 | 6 | 1 | 1 | 1 | 1 |
| Islamic oil exporting countries are vulnerable to turmoil | 5.9 | 46 | 23 | 15 | 6 | 4 | 2 | 1 | 1 |
| We're neighbour to the world's biggest oil importer | 5.8 | 29 | 38 | 21 | 6 | 1 | 1 | 2 | 1 |
| Canada's reserves are almost as large as Saudi reserves | 5.4 | 25 | 25 | 20 | 11 | 4 | 2 | 3 | 9 |
| Canada now sells more crude to the U.S. than Saudi Arabia | 5.1 | 13 | 23 | 24 | 17 | 2 | 3 | 4 | 15 |
| U.S. and other clients would pay a premium to have a stable, democratic country like Canada as a long-term supplier | 5.0 | 22 | 27 | 17 | 13 | 11 | 6 | 4 | 1 |
| Oil investors can feel especially confident about Canada because of our independent and fair-minded legal system | 5.0 | 21 | 27 | 18 | 13 | 10 | 8 | 3 | 1 |
| Our capital markets have the speed and efficiency to finance rapid development | 4.4 | 7 | 15 | 24 | 24 | 19 | 8 | 1 | 2 |



4.0. The Future – A Wealthier Alberta, More Conflict, and Some Financial Institutions May Move to Calgary

CEOs and business leaders foresee a promising future for Canada in becoming a world leader in petroleum. Almost all respondents (98%) predict that Alberta will become wealthier, a majority that Ralph Klein's province will become "a lot wealthier," as shown in table 3.

According to most respondents, a major fallout from Alberta's petrol wealth will be increased conflict between Edmonton and Ottawa, as shown in table 4. The panel as a whole assigns a 70% probability to this taking place. The panel assigns an approximately 50% probability to

- Alberta's becoming more influential,
- An Alberta separatist party surpassing 20% in provincial polls, and
- Several large financial institutions moving to Calgary.

Respondents are not quite convinced that Calgary will surpass Toronto in the number of head offices its hosts. Yet, the panel assigns an average probability of 41% to this happening—a probability of less than 50% and yet sizeable nonetheless.

Table 3: (Q3) Compared to other provinces, do you predict that Alberta will become...[ROTATE POLES]

| | % |
|--------------------------------------|----|
| A lot wealthier than today | 59 |
| Somewhat wealthier | 39 |
| The same relative to other provinces | 1 |
| Somewhat less wealthy | 1 |
| A lot less wealthy | 0 |
| Don't know or no opinion | 0 |



Table 4: (Q4) On a 100 percentage point probability scale where 0 means it definitely won't happen and 100, that it will almost certainly happen, please score the likelihood of the following Canadian scenarios taking place in a decade: [RANDOMIZE]

| | Mean | DNK |
|---|------|-----|
| Conflict intensifies between Alberta and central Canada | 70 | 0 |
| Alberta becomes Canada's most influential province | 51 | 0 |
| Several large financial institutions relocate HQs to Calgary | 50 | 0 |
| An Alberta separatist party gets 20% of the vote in a provincial election | 49 | 0 |
| Led by an Albertan, the Conservative party forms the government in Ottawa | 44 | 0 |
| Calgary surpasses Toronto as home to the largest number of corporate head offices | 41 | 0 |

The following verbatims capture respondents' views on the implications of Alberta's growing oil wealth for its position within Canada:

By an Alberta leader of the Conservatives, if you are referring to Stephen Harper, it won't happen. He may be a great guy, but he lacks charisma and warmth, and the remake is making things worse. It highlights his discomfort with being Mr Congeniality.

Alberta definitely has the winds at its back. However, its population is only a quarter of Ontario, which will limit its influence to some extent.

5.0. Overwhelming Preference for Favouring U.S. Over China

In any conflict between American and Chinese players over Canada's resources, none of the panellists would advocate the Canadian government's favouring China while the overwhelming majority (77%) would advocate favouring the U.S., as shown in table 5.

When sentiment is so one-sided, the underlying reasons may not much matter. In practice, the most important reasons for favouring the U.S. are business considerations, fairplay in international affairs, and human rights. Those who identify human rights considerations are especially inclined to favour a consistent siding with the U.S., presumably because they are alert to China's record of human rights abuses. Those



who identify fairplay in international affairs also advocate giving preference to the U.S., albeit more “mostly” rather than “consistently,” as shown in table 6.

Table 5: (Q5) China and the U.S. are both interested in our reserves. If Canadian governments found themselves in a position where they had to choose sides, should we be... [ROTATE POLES]

| | % |
|----------------------------|----|
| Consistently with the U.S. | 32 |
| Mostly with the U.S. | 45 |
| Neutral | 22 |
| Mostly with China | 0 |
| Consistently with China | 0 |
| Don't know or no opinion | 1 |

Table 6: (Q6) Should such a decision be mainly... [PLEASE CHOOSE ONE] [RANDOMIZE]

| | % |
|--|----|
| For business reasons | 64 |
| For fair play in international affairs | 22 |
| Because of human rights | 8 |
| For cultural reasons | 5 |
| Don't know or no opinion | 1 |

The following verbatims capture business leaders support for favouring U.S. over China in oil investments:

Canada should preferentially supply oil to the U.S. ...to assist in preserving our North American independence, financial strength and competitive position and military base.

When the chips are down the U.S. is our best friend and business partner and we should always support them ahead of other countries. This is what you do with your friends.

We depend on the U.S. for our protection and security. Therefore, unless we plan on spending vast amounts of funds for an increased domestic military presence, we must honour our commitment through other means to pay back this debt. If that includes making the U.S. a first priority, at a fair price, for our natural resources, then we MUST do this.



6.0. Methodology

The *National Post*/COMPAS web-survey of CEOs and leaders of small, medium, and large corporations and among executives of the local and national Chambers of Commerce was conducted July 19-22, 2005. Respondents constitute an essentially hand-picked panel with a higher numerical representation of small and medium-sized firms.

Because of the small population of CEOs and business leaders from which the sample was drawn, the study can be considered more accurate than comparably sized general public studies. In studies of the general public, surveys of 143 are deemed accurate to within approximately 8.2 percentage points 19 times out of 20. The principal and co-investigator on this study are Conrad Winn, Ph.D and Tamara Gottlieb

