# The Alberta Story

DUE to the late arrival of settlers in Alberta 85 percent of the mineral rights are publicly owned. There were discoveries of hydrocarbons near the turn of the century, but the oil business did not begin until 1914 with the discovery of oil at Turner Valley near Calgary. This was the sole major discovery for 33 years. During this period, exploration techniques became more sophisticated and in 1947 the discovery of a major pool at Leduc, near Edmonton, started a boom in drilling activity that has continued to the present time. To date approximately 35,000 wells have been drilled of which 16,600 are capable of producing oil or gas. Concurrently some 800,000 barrels of oil and 3,600,000 thousand cubic feet of gas are produced daily in Alberta.

Beginning in the early 1940's, the method of granting exploration rights on publicly held mineral "lands" has been periodically modified to encourage more rapid development and to allow for the application of modern exploration techniques.

Today exploration rights on large blocks of land (up to 100,000 acres) are sold for cash bonuses by public tender. After a company acquires the right to explore, it must pay certain small rentals and make certain expenditures over a three year period.

Then if all conditions are fulfilled, the company can select up to 50 percent of the "land" in a modified checkerboard fashion as leases. The remainder must be returned to the Crown! Drilling rights on smaller blocks (usually 3,000 acres or less) are sold by public tender for a one year term, with small rentals and a drilling requirement. Approximately 50 percent of these smaller blocks may be retained as leases, with no checkerboard required. Leases on very small semi-proven blocks (usually under 640 acres) are sometimes sold without any expenditure or acreage return requirement. Prices paid for such leases have ranged as high as $16,000 per acre and the large potential income of the oil or gas on these acquisitions assures early development.

All leases granted by the Crown are for a ten year duration *or for as long as there is production,* with a $1 per acre per year rental.

Any production recovered is subject to a sliding scale of royalty which depends on the monthly production (5 percent on a poor well, and up to 16⅔ percent on a good well). The market for crude sales is prorated amongst the oil fields in the province. Thus the "allowable" production per oil field is a factor of oil reserves in the field as a percentage of the total reserves in the province. Exceptions are made for crude oils with unusual characteristics or qualities.

Up until the end of 1968, the last year for which complete figures are available, the oil and gas industry had spent some $9.6 billion in Alberta of which $2.9 billion had been paid in the form of bonuses, rentals and royalties. (It is estimated that 90 percent or $2.6 billion of this has gone to the provincial government and 10 percent or $300,000,000 to freeholders). The approximate value of oil and gas produced to date is $8.6 billion. The proven recoverable reserves of oil and equivalent quantities of gas and sulphur remaining in the ground are estimated at about 13 billion barrels. The current market value of each barrel is approximately $2.50.

The industry is continuing to invest profits and new capital into further exploratory efforts to discover the greater stores of natural resources thought to be present. For this reason

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the relationship of sums that have been paid and that are to be paid in relation to past and future revenues, is difficult to express. But if everything is brought to a "present worth" as of December 31, 1968, some relationships become apparent, and it is possible to make an estimate as to the amount of economic rent being collected by Alberta.

This may be done by assuming that all development and exploration efforts ceased on the above date and that an imaginary single purchaser acquired all the reserves in the province. The price he would be willing to pay would depend on his forecast of the demand for the proven recoverable reserves in Alberta. As these reserves would be produced, he would pay royalties to the province and corporate income tax to the Canadian Federal government.

When the monies already invested and received are also brought to a "present worth" as of December 31, 1968 and combined with the present worth of the future production referred to above, it may be calculated that approximately 49 percent of the economic rent will have been collected by the government of Alberta and that following the assumptions outlined above, a further 23 percent would be collected in the form of federal income tax. An additional 6 percent will have been collected by the private holders of mineral rights in Alberta.

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Mary Rawson, a planner and tax expert of Vancouver, spoke of two land revenue streams in British Columbia—resource and urban value.

Approximately 14 to 16 percent of provincial revenue in B.C. comes from taxes and royalties on resources—timber principally. About one-third of municipal revenues come from taxes on land. In 1966, the latest census year available, revenue from natural resources was about $100 million, and from urban land values another $100 million. This was $200 million that did not have to be raised by more onerous types of taxes.

The general practice in B.C. is to tax land more heavily than buildings. Land *must* be taxed at 100 percent of its assessed value and buildings may *not* be taxed at more than 75 percent of their assessed value, and *may* be exempted entirely.

Even though B.C. has a good record in the collection of land revenues in comparison with all other provinces (even Alberta!) the potential revenue remaining is large, as witness (a) remaining sale price of land, (b) urban value rising faster than inflation, and (c) rights to exploit resources which are changing hands at high prices.