OIL DEVELOPMENT IN ALBERTA

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" When a U.S. citizen owns a piece of ground he owns everything under it straight down to China. This is not so in the prairie provinces of Canada. Beginning in 1887, when a man bought property the mineral rights did not go with it. These were made over from the dominion government to the various provinces in 1930. Only one-tenth of Alberta consists of freehold land, where the mineral rights are privately owned. Most of this was early grants made to the C.P.R. and to the Hudson Bay Co. The few freehold acres left over are land that was purchased before 1887. If an oil company wants to drill on any of this property it makes a private deal with the owner. As to the remaining nine-tenths (147 million acres) of Alberta's land, the oil seeker must negotiate with the government. Mr. Tanner, minister of mines and minerals, says that his job is to get every cent he can from Alberta oil for the benefit of the people of Alberta. Tanner is tough with the oil men, but he is honest and his word is good. He is responsible for Alberta's present oil code, designed to prevent monopoly but also to encourage private capital to develop Alberta oil. One U.S. banker remarked that Mr. Tanner's rules have resulted in 'an oil development that is orderly beyond all precedent.'

"A company that wants to wildcat in Alberta applies for a 'reservation' that gives it the exclusive right to explore a block of no more than 100,000 acres. Each company may have two such blocks. For this privilege a fee of $250 for each 20,000 acres is required, and a deposit of $2,500 for each 20,000 acres to guarantee that the exploration plan will be carried out. These reservations may be held for three years.

"At any time during the three year reservation period a company may elect to go to lease. The lease, in this case, runs for twenty-one years, carrying an automatic right of renewal and a rental obligation of $1 per acre per year.

" The government maintains control over leased land by requiring the lessee to commit himself to a certain amount of drilling within a specified time, and by giving Mr. Tanner wide powers to make sure that oil is recovered at a satisfactory rate.

"Alberta's royalty policy at the moment provides that until June 1, 1951, a company may elect to pay the government either a flat royalty of 12½ per cent. of its production revenue, or a percentage equivalent to the square root of the average daily production of a well, calculated over the month for which the royalty is to be paid. If the company elects the square-root formula, it will be required to pay, not more than 15 per cent. or not less than 5 per cent., regardless of the well's production. After June 1, 1950, however, all companies must pay royalties under the square root formula. The government has said that even after that, it will not collect more than 16 per cent. regardless of production, but the companies are fearful.

" Important in the business of leasing is the regulation that a company may lease only half of its reservation. It cannot, moreover, take that half in a solid block, but must lease in blocks of no more than nine sections (a section is a square mile), with no blocks adjoining.

" The purpose here is two-fold: to make money for the government, and to prevent any single company from monopolising a field it has discovered. The Province in disagreement with the C.C.F. opposition, does not believe that the Province should go into the actual business of producing and marketing oil. Rather than develop the valuable acreage that comes into his control when a company goes to lease, Mr. Tanner publicly auctions leases for the mineral rights to that acreage in return for cash bonuses. The government usually auctions land in quarter-section parcels putting them up when they are in the greatest demand.

" Once a company has a lease, it must come to an agreement with the individual, probably the farmer who owns the land or surface rights. Legally this presents no problem, for the well is drilled whether the farmer likes it or not. He is paid a rental on his land that comes to about $1,200 the first year and to about $300 or $400 per year thereafter. This is a generous reward for the use of a few acres of land, but many farmers are grousing. If they are heeded, it is for the compelling reason that the farm vote in Alberta is just about the only vote there is.

" The problem of Alberta oil to-day is typically Canadian. Like Canadian iron and coal, there are quantities of oil waiting to be brought to the surface, but how to get it to distant markets at a competitive price? After Leduc and Redwater were established as producing fields, the needs of the prairie Provinces were easily met, but great quantities of oil had to be left in the ground for the time being because the cost of tank-car shipment to outside markets was prohibitive. Wells were accordingly pro-rated so that total production would not exceed prairie refining capacity of 65,000 barrels a day. They will remain pro-rated until the completion of a pipeline from Edmonton to the Great Lakes.

" Such a line, to cost about $90 million is being built by the Interprovincial Pipeline Co., sponsored by Imperial Oil, Ltd. Twenty-inch pipe will run from Edmonton to Regina, Saskatchewan; sixteen-inch pipe to Gretna, Man.; eighteen-inch pipe to the lakehead at Superior, Wisconsin—a total distance of 1,150 miles. Construction to Regina should be completed this fall, to the lakehead early in 1951. As planned the line will be able to deliver about 36,000 barrels a day to Superior, but its capacity could be stepped up to 80,000 barrels.

" Most of Alberta's 900,000 citizens are pleased about the oil discoveries but they aren't doing any dancing in the streets. Neither are they buying fleets of Cadillacs, nor dozens of platinum mink coats . . . The government is making a lot of money and is going to spend it for new roads. That's nice, but are taxes any lower? No.

" The government has already collected $23 millions from the cash-bonus auctions, $8 millions from fees for reservations and leases as well as from royalties on oil. Future income will make that seem like small change."

Miss Strethel Walton, Principal of the Henry George School of Social Science in Quebec, to whom we are indebted for the transcript of the foregoing article in the *Fortune Magazine*, makes this comment: " One cannot help contrasting this wise handling of oil resources with the way in which the Alberta government allows land speculation to flourish on all land outside the oil fields."