

The Prairie One Percent:

Time to Share, Time to Invest?

By Ian Urquhart



When I introduce students in my introductory politics class to power and inequality I ask them to read a short magazine piece by Joseph Stiglitz, the Nobel prize-winning economist. “Of the 1%, by the 1%, for the 1%” details growing inequality in the United States – a country where a few years ago one percent of the population claimed nearly 25 percent of U.S. income. Stiglitz suggests that American society suffers from the inequality obtained by the power of the wealthy. “One Percenters” are generally disinterested in seeing government look out for the vast majority of Americans and offer them good public education, good public health care, and stronger environmental protections.

The Stiglitz article offers a useful context for thinking about grazing leaseholder compensation – one aspect of the grazing lease system on public lands in Alberta. Who receives compensation, for example, for oil and gas exploration and development activities on public grazing lease lands? How should compensation be divided between leaseholders and government? If government receives a share, how should that share be invested?

In January the Alberta Land Institute (ALI) published “Alternative Models of Compensation on Alberta’s Crown Grazing Lease Lands,” a comparative study of compensation models for public grazing lease lands (the study is available online at <http://www.albertalandinstitute.ca/research/research-projects/project/grazing-leases>). O’Malley, Entern, Kaplinsky, and Adamowicz compared current public lands grazing lease policy in Alberta with several alternative systems. Two of those systems operate today, one province-wide in

Saskatchewan and the other in the Municipal District of Taber. A third system was proposed by Alberta’s Agricultural Lease Review Committee (Thurber Committee) in 1998. As Andrea Johancsik notes in our first feature article the Thurber Committee recommendations were passed by the legislature in 1999 but the law never came into force.

The Alberta Land Institute is an independent research institute that strives to take “an innovative and impartial investigative approach.” The authors of the alternative models study sought to offer “clear and independent information regarding the legislative and policy objectives around compensation.” Their goal was simple, and fundamentally important – to try to better inform compensation policy discussions.

Alberta’s Grazing Lease Rental and Compensation System

Today, grazing leaseholders pay the provincial government an annual rental fee. The rental fee is calculated according to the amount of forage required by an “animal unit” in one month (if you run into a 1,000-pound cow on the street you’ve run into the definition of one animal unit). Rental rates are highest in southern Alberta, lowest in the north, and in between in Red Deer/North Saskatchewan area. Alberta’s Auditor-General reported that, in 2013-2014, the provincial treasury received \$3.8 million from grazing leaseholders. It also noted that a Government of Alberta survey from 2012 recorded that privately owned land in Alberta was rented out for grazing at ten times the rate charged to graze cattle on public land.

“The province charges less rent for grazing leases than private landowners charge.”

– Alberta Auditor General, July 2015

Ranchers aren’t the only ones who look to public lands as a vehicle to help earn a living. Oil and gas companies want access to those lands as well. Their search for oil and natural gas may lead them to access and, as a side-effect, damage the very same lands where leaseholders graze their cattle. This is where the concept of compensation arises. In Alberta’s compensation system, the public – the owners of public lands – receive very minimal compensation for oil and gas operations on leased lands. The leaseholder receives the lion’s share of compensation. The amount of compensation leaseholders deposit into their bank accounts generally is determined through negotiations with the companies. These negotiations are private; there isn’t a public record of how compensation actually is paid.

Back to the One Percent

The secrecy surrounding compensation payments creates an obvious problem for serious research into Alberta’s compensation payment system. The authors of the ALI study seem to have been very careful in how they addressed this problem. They calculated an estimate, based on the decisions the Alberta’s Surface Rights Board has made in compensation disputes between leaseholders and petroleum companies, of what lease-

holders receive for each wellsite on leased lands. This estimate for 2013/14 is \$1,500 per wellsite annually.

Using the \$1,500 per wellsite estimate the ALI study suspects that grazing leaseholders receive \$50.13 million annually in petroleum industry compensation payments. Over the 30-year lifespan of a wellsite these compensation payments were estimated to amount to just under \$1 billion - \$901.5 million.

Do these estimates mean all grazing leaseholders receive compensation from the oil and gas industry? No. Of Alberta's 7,388 grazing leases on public lands 44.8 percent of them (3,312 leases) don't have any petroleum wellsites on the land.

Getting back to that idea of the one percent and fairness...of the 7,388 leaseholders in Alberta one percent of them (74) annually receive an estimated \$19.1 million. The one percent receives a staggering 38 percent of all the petroleum compensation cheques sent to leaseholders. The study believes that one leaseholder, who has 812 wells on leased land, receives \$1,218,000 every year in compensation payments. People who told the late Bob Scammell years ago that they knew of leaseholders who were receiving more than \$100,000 annually in petroleum compensation payments likely knew very well what they were talking about.

Is this overall level of compensation fair? Is it fair that none of the compensation goes to the real owners of public land – people like you and me? The millions of dollars collected by the Prairie One Percenters, if not the compensation regime itself, surely bears a critical look from the perspective of fairness.

“Certain leaseholders receive surface access compensation fees in excess of the actual rent they pay to the province for grazing livestock and the costs incurred

from allowing industrial access to their leased land.”

– Alberta Auditor General, July 2015

The ALI report uses the term “windfall” at one point. I can imagine how some grazing leaseholders may have cringed when they saw that word. Giving windfalls to grazing leaseholders wasn't the program's intent. As the ALI study describes it, that intent or purpose was to make grazing leaseholders “whole”, to put the grazing leaseholder affected by energy operations in a financial position as close as possible to the position they were in prior to entry by the operator.”

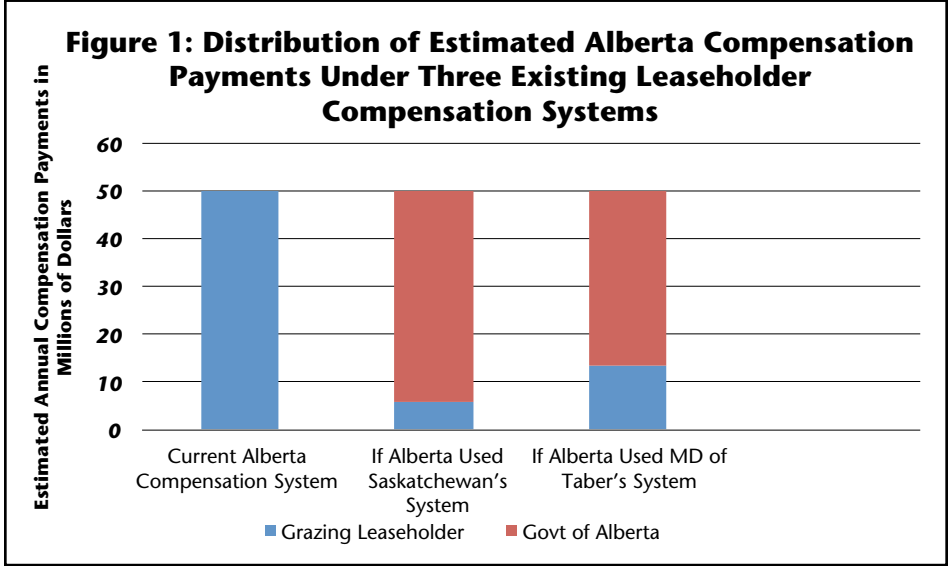
Are there any or many windfalls out there? Is the leaseholder who receives an estimated \$1.218 million “whole”? What about the other 73 who claim an estimated \$19.1 million every year? In July 2015 the Auditor-General reported that one of the province's grazing associations paid the government “\$68,875 in grazing fees and collected \$348,068 in industry payments for industrial activities on their leased lands. If individuals and associations are more than whole, the phrase

“cowboy welfare” would seem to be an appropriate label to use to describe what Alberta's current compensation model delivers to a fortunate few.

And then there's the windfalls that may arise when leases are sold. Leaseholders keep all of the money they receive when they sell or transfer a lease to graze cattle on public land. The Auditor-General noted that a pair of leases in southwest Alberta, amounting to 1,134 acres, were offered for sale. The asking price was \$265,000. The annual rental fee paid to taxpayers for those leases? \$486. Isn't this the type of situation that screams “windfall profit?”

The authors of the ALI study don't delve into questions of fairness. They don't recommend a policy change. What they do though is show that in Saskatchewan and the Municipal District of Taber the compensation issue is handled very differently. Those jurisdictions have developed compensation arrangements where payments are shared between the public and leaseholders. In both of those systems the lion's share of compensation payments goes to the public while the leaseholders receive considerably less. Figure 1 compares what the distribution of compensation

Alberta Land Institute Estimates of Compensation Paid to Grazing Leaseholders on Alberta's Public Lands	
Annual Compensation	Compensation Over Thirty Years
\$50,130,000 (± \$16,710,000)	\$901,524,000 (± \$300,508,000)
<i>Note: The Institute estimated leaseholder compensation over a range of \$1,000 to \$2,000 per wellsite. The \$50 million and \$901 million figures represent the sums of the \$1,500 per wellsite calculations.</i>	



payments between the Alberta government and leaseholders would look like if Alberta kept its current system or followed either of these two alternative compensation models.

Did Saskatchewan and the MD of Taber think about what a fair distribution of compensation payments should look like when they designed their models? If they did, they came to very different conclusions about what constitutes fairness than what is suggested by Alberta's system. If Alberta used the Saskatchewan system, a system employed by the centre-right Saskatchewan Party government, grazing leaseholders in Alberta would receive \$5.752 million rather than \$50.13 million. The government would receive \$44.378 million. If Alberta adopted the system used in the Municipal District of Taber then leaseholders would receive 26.7 percent of \$50.13 million; the

remaining \$36.762 million would go to the provincial government.

Fairness has another, even more important, dimension that I would like to raise when it comes to the compensation payment issue. This dimension is about the land, about the damage oil and gas inflicts on the land, and how compensation payments are and could be used. How much of the compensation the Prairie One Percent receives is devoted to restoring and improving the public's land? In 1999 the Thurber Committee recommended that Alberta create a "Conservation Resource Management Fund" with some of the funds that flowed then and now to leaseholders. This Fund could, in part, invest in enhancements to Alberta's grasslands. If government has an obligation to make leaseholders "whole" I think it has at least as equally strong an obligation to make

the land whole as well. If petroleum activities compromise the landscape then some of their compensation should be plowed back into the land itself.

While important in all landscapes this principle is especially important in Alberta's grasslands. One of the reasons so many of Alberta's endangered species are found in the province's grasslands may be traced to the detrimental impact that our thirst for oil and gas has on native habitats. If Alberta's politicians can summon the political will needed to think about redistributing some percentage of petroleum compensation to the public treasury I would hope those funds would be dedicated to restoring Alberta's grasslands. This is an issue and an obligation I suspect is better entrusted to government than it is to our Prairie One Percent. 🌱