THE EXECUTIVE COMMITTEE'S STAND ON DEPLETION ALLOWANCES

THE ARGUMENT

1. When Congress proposed, and the States ratified, the income-tax amendment to the Constitution in 1913, the intent clearly was to tax income, not capital.

2. Replacement of ordinary capital investment, such as for machinery and equipment, was provided for by tax deductions for depreciation.

3. For mineral and certain other natural resources, such as forests and fisheries, where the capital is a wasting asset, replacement of the capital investment is partly provided for by the 'depletion allowance' tax deduction. In the case of mineral resources, the specific asset is irreplaceable and a new 'asset' must be found by exploration.

4. Since most extractive industries are high-risk enterprises, incentive for risk capital to invest in mineral exploration could only be provided by greatly increased profits, if tax relief through depletion allowances did not exist. Since independent studies have repeatedly shown that current profits in the extractive industries are, on the average, about equal to or less than those of industry in general, and the tax load also about the same, this means that greatly increased product prices would be needed to offset exploration costs and risks.

5. The degree of exploration risk is theoretically balanced by the amount of the depletion allowance, based on the 'discovery value' principle. Thus depletion allowances range from 5 to 27-1/2 percent of the gross value of the product produced, depending on exploration costs, but in no case may exceed 50 percent of the producer's net income from the property concerned.

6. Periodic studies over the past 40 to 50 years by committees of the Congress and by other investigative bodies have repeatedly reaffirmed the justice and economic soundness of the depletion-allowance principle. Criticisms have been leveled primarily at the size of specific allowances, particularly the one for oil and gas.

7. An adequate supply of minerals -- fuels for power and transportation, metals for construction, and minerals for crop nutrients to maintain life -- are an absolute requisite for any modern industrial economy, now and in the future.

8. There are only limited quantities of these needed minerals on or in the earth, and these quantities are being depleted at increasing rates as population grows and demands increase.

9. Exploration costs rise rapidly as the most easily found deposits are exhausted. There is therefore a need to reexamine depletion allowances periodically and increase them as necessary to provide the incentive for investment of risk capital by balancing rising exploration costs.

10. The fact that, in the past few years, discovery of new reserves has not kept pace with production of oil and gas, and of some other minerals, indicates that this objective is not being attained in all cases.

RESOLUTION

Therefore be it resolved, by the Executive Committee of the American Institute of Professional Geologists:

1. That members of the Institute should support the principle of depletion allowances on the production of mineral resources.

2. That State Sections, as well as individual members of the Institute, should make known to their congressmen and senators, and seek opportunities to make known to the general public, their support of the depletion-allowance principle, and the need to maintain sufficient allowances to provide adequate exploration incentives.

OBITUARY NOTE

FREDERIC H. LAHUE, AIPG, died on December 3, 1968, at the age of 84. He was a past president and Sidney Powers medalist of the Aapg, author of the widely used Field Geology, developer of the standard system for recording statistics of exploratory drilling, and charter member of AIPG.
NEWS FROM THE SECTIONS

LOUISIANA

The Louisiana Section has been approached by the State Civil Service for aid in updating the examination for geologists. A test has been compiled under the supervision of R. M. Allen, Jr., and is now being reviewed by J. P. Spillers and A. H. Trowbridge.

The Section also plans to approach the appropriate State agency to see whether highway markers can be erected at points of geologic interest. The membership is currently being asked to suggest localities that should be included.

MISSISSIPPI

A Governor's Advisory Committee has been created by the Mississippi Section, and four of its members met with Governor John Bell Williams on January 24. They made a strong recommendation that qualified geologists be appointed to the State Oil and Gas Board, the Mineral Lease Commission, the board of the R & D Center, and the Highway Department. They also pointed out that the State Geological Survey is in need of better housing. The Advisory Committee consists of X. M. Frascogn, Sr., E. B. Long, F. F. Mellen, E. D. Minihan, M. W. Sherwin, and G. W. Gulkov, chairman.

NARROWING THE GAP

We received our February issue of this publication in the mail only 32 days after sending the raw copy to the Golden office. For those of you not familiar with the ways of printing, this is good. Through the efforts of Executive Director Brunton, we expect to hold to this schedule if not improve it. To the extent that TPG becomes more current, the gap in communication will narrow.

As to what is communicated, much of it is up to you. There has been a gratifying response to our plea to SEND, and we express thanks for the news and views received. But more news and views will regularly be needed. We'll try for prompt publication. Keep sending!

... Editor

'GEOSURVEYS' TERMINATES

After 14 years and 731 issues, GeoSurveys has been discontinued by its founder, HOWARD A. MEYERHOFF, AIPG. This weekly commentary, in which news of the mineral industry was presented and its significance assessed, was widely quoted in both industry and government. The decision to sign off was prompted by the paradoxical circumstance that, in retirement, Meyerhoff has 'become too busy to keep on.'
In spite of the near-unanimous vote by both Advisory Board and Executive Committee members, there has been much criticism of these decisions ever since their publication in the January and February issues of The Professional Geologist. Although some members apparently think that the Advisory Board's resolution did not go far enough (and these will undoubtedly criticize the Executive Committee's resolution on the same basis), others criticize the Executive Committee for taking any action on this matter. As one well-known charter member wrote: 'The very fact that a statement, any statement, is made immediately suggests motivation by private and/or corporate interests. I object to this direction of the Institute's efforts.' Others commented that this action is 'political,' 'contrary to the objective scientific purposes of AIPG,' and 'such action should only be taken on vote of the entire membership.'

It seems to me that these comments fail to recognize the functions and mode of operation of the Institute, i.e.:

1) They imply that the Institute should avoid controversial issues. One of the reasons for existence of the Institute is that other geological organizations were unwilling to tackle such issues.

2) They imply that the Institute should avoid 'political' issues; again, one of the reasons for our existence is that other geological organizations were unwilling to tackle such issues. Let's face it; we are professional, not scientific, and hence more political than other geological organizations. (Incidentally, the 'political' tone of this particular issue has been largely injected by legislators from states where natural-resource production is relatively low and consumption high, so it is politically expedient to champion the consumer at the expense of the producer, regardless of facts.)

3) Some of the comments imply that all controversial issues should be decided by referendum; this is not feasible nor, in my opinion, desirable (for amplification, please see my column elsewhere in this issue).

4) Finally, there is the implication that it is impossible to be objective on so-called 'political' issues, and that anyone speaking out on this particular issue is 'motivated by private or corporate interests.' The public interest is definitely involved, regardless of whether private or corporate interests may also be, and education of the public on matters where geologists can speak with authority is one of the Institute's responsibilities. If the statements above do not convince you that depletion allowances are in the public interest, I suggest that you read the references listed herein, especially the book by Charlie Park.

The Advisory Board and the Executive Committee try to express the majority opinion of the Institute. To be sure that they do, the proper procedure is thorough discussion at the State Section level, followed by instructions to State Advisory Board delegates, so that the official attitude as expressed by the Board and the Executive Committee properly represents the Institute. On the basis of presently available evidence, the above resolution represents the majority opinion of Institute members.

R. Dana Russell
President

A FEW REFERENCES


A PROPOSAL ON DEPLETION

The United States Treasury has just submitted to Congress (week of January 27) a 960-page report on Federal tax reform. One almost certain result will be revision of the Internal Revenue Service's 'guidelines' which establish the rates at which corporate assets can be depreciated for income-tax purposes. A less certain fate is in store for a recommendation to change current mineral-depletion allowances, in a direction which will be less advantageous for mineral producers than at present.

The past policy of the mineral industry -- and of economic geologists -- has been to defend current practice. Some mineral operators have even launched a counter-offensive, whose objective is to raise the level of present allowances. I would like to suggest that such an approach is politically intemperate. It is most certainly an all-or-nothing approach, and such generally have a terminable life in the political world.

Instead, I would like to propose an alternative which, I believe, would put the minerals industry on a tax par with other industries, would be politically palatable to most parties, would be advantageous to the geological profession, and would still recognize the depleteable nature of mineral assets. I will now explore the nature of this immodest statement.

You will note that I say 'minerals' and not 'petroleum' depletion allowance. The allowance is, of course, an important element in the economics of nonpetroleum minerals exploration and production, especially in the metals, sulphur, borax, and uranium industries. So my subsequent comments knowingly bear on all minerals industries, and not just on oil and gas.
THE PRESIDENT'S COLUMN

CONSENSUS, COMPROMISE, OR REFERENDUM?

Most of the issues that come up for decision in this organization seem to be controversial. Perhaps this is typical of 'professional' problems compared with scientific ones, but this doesn't ease the decision-making process. To cite a few examples:

1. Qualifications for membership
2. Demonstration of professional competence
3. Screening procedures
4. Violations of ethical standards
5. A second type ('class') of members
6. Statutory regulation of geologists
7. 'Accreditation' of geology departments
8. Sponsorship of an Environmental Geology Center
9. Official position on depletion allowances
10. Objectives and functions of AIPG compared to those of other geological organizations (duplication and overlap)

On most of these problems there are strong differences of opinion. Where a decision must be made on an action, procedure, or official Institute attitude, what is the best way of reaching that decision?

The simplest way, and the one requiring the least mental effort on the part of individual members, is a referendum with no prior discussion. If you don't know anything about the question you can still flip a coin and get a 'yes' or 'no' answer for the ballot! Of course a decision reached in this way may be uninformed and unintelligent, and usually leaves a group of disgruntled losers. 'A man 'convinced' against his will is of the same opinion still.'

It is generally agreed that the best way to reach a decision is by consensus -- by a frank airing of all points of view, followed by discussion until agreement is reached. This, of course, requires that all participants have open minds, a willingness to listen to and consider other points of view, and the ability to reach an objective conclusion. It also takes patience and time, and hence seldom works with large groups. Even with our nine-man Executive Committee it occasionally takes more time than we can spare, but it's always worth trying.

So we sometimes come up against questions where opinions are so strongly held that agreement cannot be reached, at least in the time available. Compromise frequently resolves such an impasse; if both sides are willing to make some concessions they often can come to terms at an intermediate position. But again, a frank airing of views and discussion of alternatives is a prerequisite to intelligent compromise, and the concessions should be freely made. Otherwise both sides may feel disgruntled, as in the case of the independent appraiser who considered that he had done a good job when the buyer and seller were equally angry!

Only when neither a consensus nor a compromise can be reached should a group, gathered at one place so discussion is possible, resort to a vote to arrive at a decision (though Robert's Rules of Order may require one for the record). Of course, when all members of a diffuse organization must be polled (as in elections or changes to constitution or by-laws), a referendum is the only possible course. But the same principles apply. An intelligent vote requires consideration of various points of view and an objective appraisal of them before deciding how to cast your ballot. Therefore, let's try first for a consensus; then, if we can't agree, for a compromise. If, eventually, we have to settle for a referendum our vote should be an informed and intelligent one.

So - o - o - o, here we are, come full circle, back to the same subject I've plugged in previous columns -- communications. There simply is no substitute for free and frank discussion of all points of view on controversial issues! So let's discuss these issues -- in State Section committee meetings, in monthly State Section meetings, in the pages of The Professional Geologist, with each other and with our colleagues in other organizations. And let's not wait until the annual meeting of the State Section, of the Advisory Board, or of the Institute -- there won't be enough time, then, for a frank airing of views.

The Jivaro Indians, whose weapon is the blow-gun, have a saying: 'He who talks cannot shoot!' Let's talk, objectively and intelligently, instead of taking pot-shots.

EXECUTIVE COMMITTEE'S RESOLUTION ON DEPLETION: EXPLANATORY NOTE

The resolution on depletion allowances on page 1 was drafted from guidelines set by the entire Executive Committee at its January meeting. All members of the Executive Committee then reviewed the draft; it was approved by a vote of 8 'For' to 1 'Opposed.'

This Executive Committee action was taken in response to a resolution at the October 1968 meeting of the Advisory Board, whose minutes state that their action was taken 'because there is continuing need for public education on this subject and professional geologists are well qualified to voice an official opinion.' Only three of the 24 delegates present voted against the proposed resolution, which was:

'That the Executive Committee issue a policy statement in favor of a mineral depletion allowance so that this overall statement on natural resources can be used by State Sections in active support of depletion, because of its importance to the economy and security of the country, and furthermore, that State Sections be encouraged to take a positive and active stand in favor of depletion.'
I must first say that I believe a minerals depletion allowance makes sense, for two reasons. One is that investment in minerals exploration is a gamble in a sense that is not matched in other businesses. Normal forecasting tools such as economic surveys, population and traffic studies, and so on, may be useful in planning an automobile factory or a department store, but are utterly useless in exploration planning. The big unknown in the latter case is the earth itself, and it continues to be full of surprises. So exploration is an operation where the risks are indeed great, and the returns are occasionally great, but more often dismal.

A second, and purely economic, aspect of the depletion allowance is that income from minerals, unlike income from a factory or a store, comes from a wasting physical asset with a finite life. A store or factory may be modernized or enlarged or rebuilt, but a given mineral deposit just naturally gets smaller as the minerals are produced. So, the depletion allowance serves as a means of returning the investor’s capital, which in this case is the mineral deposit itself. Otherwise, when the investor’s income runs out, his ‘capital’ will run out simultaneously, which is unlike other cases in business and industry.

And now we get to the heart of the matter. The political weakness in the depletion-allowance concept is twofold, and the second part is as important as the first.

1. Most of the money returned in the form of the depletion allowance is not invested capital. That is, the depletion allowance continues even after the investor has gotten back his investment. This is how depletion differs from depreciation (amortization), and it is generally the reason for public criticism of the depletion concept.

2. As noted above, the mineral deposit, which is a tangible, physical, capital asset, does waste away, and must be ‘replaced’ by means of minerals exploration. Exploration is apt to be uncertain and costly, and should be compensated for by some accounting device other than just expensing the outlays. But, in present practice, depletion-allowance ‘income’ may be spent as the receiver sees fit, and not just for replacement exploration.

Now, let’s put these two thoughts together, and look at what I believe is a rational basis for revising the use of the depletion allowance. Since a mineral deposit must be ‘replaced’ in order for an operator to stay in business, and since exploration is such a high-risk enterprise,

WHY NOT CONFINE THE DEPLETION ALLOWANCE TO THE AMOUNT WHICH AN OPERATOR SPENDS ON EXPLORATION AND DEVELOPMENT?

This approach would prevent the minerals industry from pocketing unearned ‘returns of capital.’ It would prohibit royalty owners, who usually have risked nothing, from receiving tax-free income, unless they themselves choose to engage in minerals exploration. And, it should stimulate minerals exploration by deflecting minerals-industry income from other enterprises such as real estate and general manufacturing, into which quite a few of them have moved.

Obviously, the above basic idea is just a beginning. It ignores the fact that some -- though not all -- exploration costs may now be expensed, and would simply be shifted from an expense category to the depletion category in tax-reporting. I have said nothing about the percentage level for various minerals; nothing about the application of the depletion allowance to the production of foreign oil by American companies; nothing about the nature of allowable exploration costs -- e.g., the extent to which general office overhead is a proper expense; nothing about the timing of exploration costs relative to claiming the depletion allowance -- i.e., may they be spread out in time, or must they be recovered in the tax return for the year in which they were expended. There are undoubtedly other complications.

But, I believe that the concept offered above makes taxation sense, when one takes all American business and industry into account. I also believe it offers promise of activity for the economic geologist. Last but not least, it may present a political alternative to no depletion allowance at all, or to a serious reduction of allowances under the present system. Either of the last two courses would, I believe, result in seriously diminished exploration.

Robert H. Paschall, AIPG

LETTER TO THE EDITOR

Sir:

Recently I have been much impressed with the format and quality of The Professional Geologist. If there is any one thing which will draw such an ‘independent group’ of men together for a common vital cause, I believe it is our official publication.

As a matter of news, in 1966 the Virginia General Assembly passed into law a number of regulations which will govern the operation of all strip mines, open-pit mines, quarries, and sand and gravel pits in this State. It seems as if this law was passed without many of us being fully aware of exactly what was required. The law states, ‘The application for a permit shall be accompanied by two copies of an accurate map or plan and under the following requirement — be prepared by a licensed engineer or licensed land surveyor.’

Apparently our General Assembly doesn’t recognize the certification of geologists yet. Those of us who are actively engaged in mining and consulting have our work cut out for us. There are many of you in other states who may be affected by similar laws either presently or in the very near future. We must all work toward presenting a united front to the rest of society.

Sincerely,

February 27, 1969

Dewey S. Kirstein, Jr., AIPG
PROFESSIONAL PARAGRAPHS

CHARLES H. BEHRE, AIPG, has been awarded the Posepny Medal of the Czechoslovakian Academy of Science. The presentation was made by Ambassador Duda of Czechoslovakia on March 5.

DONALD R. RICHER, AIPG, has been appointed chairman of Terraneers, Limited, of Mentor, Ohio. Richner was with Diamond Alkali Company for 17 years, most recently as chief geologist and manager of mineral engineering of Diamond Shamrock Chemical Company.

At the Colorado School of Mines, RAMON E. BISQUE, AIPG, has been named chairman of the Department of Chemistry, and ROBERT J. WEIMAR, AIPG, has relinquished chairmanship of the Department of Geology to return to teaching and research. Weimer's successor as chairman has not been named.

R. KENNETH DODDS, AIPG, has been appointed adjunct professor at Portland State College to assist with courses in engineering geology and rock mechanics in the new graduate department of applied geology.

ALLEN F. AGNEW, AIPG, has been appointed director of the Washington Water Research Center and professor of geology at Washington State University, Pullman, effective July 1. Agnew has been at Indiana University since 1963.

CHESTER O. ENSIGN, JR., AIPG, has been named to the newly created post of executive vice-president, Copper Range Company. Ensign was elected vice-president for exploration and geology last year, after having joined the company in 1961. JAMES BOYD, AIPG, is president of Copper Range.

CHARLES A. MARTIN, AIPG, has been promoted to assistant to the resident manager, Delhi Australian Petroleum, Ltd., in Adelaide, South Australia. He was formerly a staff geologist.

Effective July 1, KENNETH K. LANDES, AIPG, will retire from the Department of Geology, University of Michigan, to become a consultant.

FREDERIC F. MELLEN, AIPG, opened consulting offices on March 1 at 1202 Standard Life Building, Jackson, Mississippi 33921. Under the name Frederic F. Mellen Geological Associates, the firm will handle all phases of exploration and development in the southeastern states.

J. HERBERT SAWYER, AIPG, consulting geologist, has accepted a six-months assignment starting in March as geological advisor to the Ministry of Petroleum Affairs of Libya. He will be located in Tripoli.

LLOYD C. PRAY, AIPG, is president, and ORVILLE L. RENZY, AIPG, is vice-president, Society of Economic Paleontologists and Mineralogists. RAYMOND E. PECK, AIPG, is co-editor of the Journal of Paleontology, and GERALD M. FRIEDMAN, AIPG, edits the Journal of Sedimentary Petrology.

R. DANA RUSSELL, president of AIPG and associate director for exploration at the Denver Research Center of Marathon Oil Company, has, at his request, been placed on special assignment until his retirement at the end of 1971. This will permit him to spend essentially full time on AIPG business for the remainder of his term as president, and will also give him added time during 1970 when he will be chairman of the Advisory Board.