

Thompson Law Class Talk

UBC Law Seminar, Jan. 9, 1974

7: Conf. on Mineral Leasing

Law & Overmotivating Mineral Exploration.

B.C. - Yukon Ch. of Mines has expressed great dismay, expln. outlays are off.

Demerating mother, fly & chum? No, balance & optimality needed here, too.

If finding costs are not to exhaust entire value of their product, must defer expln. until discovery value $>$ cost.

Good "conservation" is not finding ~~less~~ more, but using less. If we find too much, we use too much. Our curiosity may undo us.

Capt. is scarce. To meet present crisis, we should be like Irish famine relief, bldg. p.w. Need finished, ripe commodities today. Need to process known reserves ... ?

We may also need to use less now & develop more for future if antic. Δ value has risen more than i has risen. These are offsetting. The social cost of holding has gone up, but so has the social value of holding. (unlike Irish p.w. famine road bldg. case.)

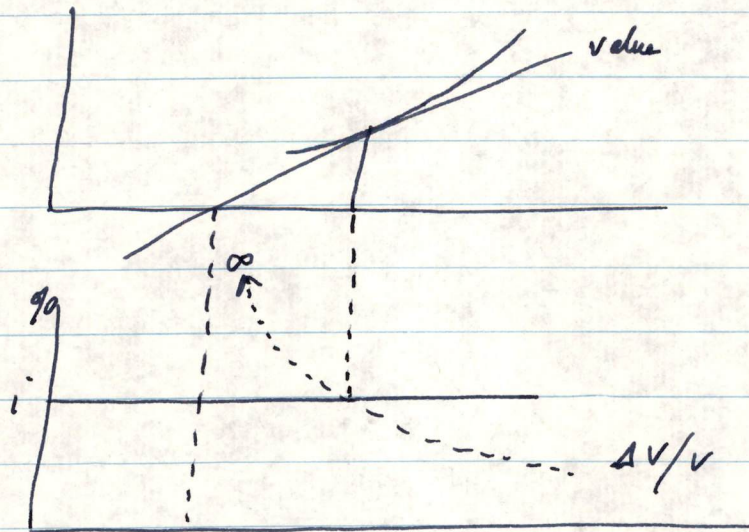
But now price has already gone up, value of holding diminishes, we shd. think about cashing in.

CONF. ON MINERAL LEASING

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~~Raise as gas~~

Std. begin mining when in situ value $< i$.

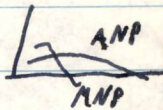


Similar ~~principle~~ principle re when to begin exploring.

Now raise qm. about various laws & instns.

1. Open access to prospecting

Claim-staking; rule of capture; prior appropri. (Free mining; etc.)

Fish. 

Open access followed by closed.

Where tenure is insecure. Arctic. LDCs, until recently.

Where unq. of knowledge, or differential sophistication, is insecure.

Requirement of some prospecting on some land to hold down very large areas. Premature use of one corner of large spread. (This is one reason why revaluation adds more to reserves than new discoveries)

2. Preclusive acqn.

Invest funds w/o adding to output

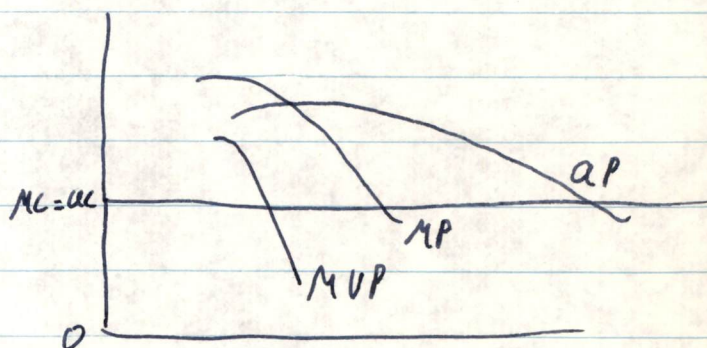
Exclude interlopers

Add to credit base, for borrowing, or selling stock

Minimize regult. problems; defer taxes

Loss of effv. dis advantages.

Tenure is good
"Super-tenure" is bad.



3. Duplication.

Non pooling, Vert. inter. Each carries enough for own survival.

Among nations, this may be inevitable, ex. of Arabs.

Among firms, is more avoidable. Govt. policy shd. make a mkt., avoid this waste from vertical inter. (Mktg. board may accomplish.)

Surpluses of one can't help shortages of another.
All require surpluses. So all get them.

Since exploration is risky, all must put out enough effort so minimum possible finding is enough to fill needs.

Surplus discoveries resulting then lead to surplus producing

(Need for military control leads to large mil. outlays, consuming much minerals for themselves.)

4. Castels.

Price umbrella.

5. Leverage of pvt. over public invt.

Police power - creating terms in LDCs.

Like annexing land, then extending city police service.

Pipelines (ingul. extensions carried by rich ones.)

Utilities maintaining rate base.

6. Publicity value

To sell shares, & borrow. (Tax shelter investments)

7. Mgmt. aggrandizement.

Keep capt. inside co., rather than submit to test of mkt.

8. Tax favors.

Expensing; cap. gains; non-taxn. of accrued unrealized gains; deple. allowance; foreign tax credit. Canada's 133% writeoff.

Deferral of dividends.