

possibilities for use of policy makers in both industry and government. Special attention to problems of meeting water requirements of shale operations and surrounding communities would be highly desirable, whether from surface or underground sources.

Progress in the development of oil shale is likely to be hastened if there is competition between several sources of fluid energy. It is in the public interest to advance the technology not only for oil shale but for competing sources also. What is called for is a diversified research and development effort by both government and private industry, with the several energy sources viewed as part of an inter-related energy industry.<sup>4</sup> The temptation to go overboard for a particular energy source or technique at the expense of other equally good or even better ones should be resisted. Such result can arise as much from lack of encouraging the development of one particular energy source as from encouraging another. Improvements of R & D programming within the Department would be desirable.<sup>4</sup> As noted earlier, economic research should form an important and integral part of the Department's energy research.

#### VIII. TAX AND IMPORT POLICY

In addition to leasing regulations, other policies and regulations associated with taxation, imports, and other fields will affect the oil shale industry.<sup>5</sup> As with the question of the disposition of revenues, many of these regulations are a part of broad public policy beyond the scope of the Board. For this reason, the Board has not studied these questions in detail, and it makes no specific recommendations concerning them.

Any alteration in either the depletion allowance or the oil import quota would have considerable impact on oil shale development, as of course it would on conventional oil and other energy commodities. However, a distinction can be drawn between these two policy issues on the basis of the degree of uncertainty that needs be associated with them. In the case of quotas, periodic readjustment of the permissible level of imports in light of changes in domestic and international conditions is unavoidable. But in the case of the depletion allowance, a level and structure once determined would presumably remain in effect for an extended period of time. The Board understands that the Internal Revenue Service has indicated in an informal ruling that the depletion allowance would be 15%, calculated on the value of crushed, not retorted, shale. Any one of a variety of positions on the depletion allowance could be taken, ranging from treatment similar to crude oil to no allowance at all. The Board takes no position on the appropriate level and point of application of the depletion allowance. However, in view of indications that production costs are now low enough so that shifts in depletion allowance practice could carry oil shale production across the competitive threshold, it does urge that a final decision about these matters be made in the near future.<sup>6</sup>

Beyond urging that this element of uncertainty in the depletion allowance be eliminated, the Board views the matters of taxation and imports as so far reaching in their significance to the industries and markets for energy products, and to the regional and national economies, that this examination of oil shale development should not include recommendations regarding them, at least not without considerable further study. In the long run, the soundest approach to the development of a viable shale oil industry is to stimulate such development by advancing technology, and in other ways increasing the efficiency of shale oil extraction.

#### IX. CLOUDED CLAIM TITLES

The Board has not undertaken to examine carefully the contested oil shale claims, since this matter is now in the courts. However, the Board is convinced that uncertainty as to ownership of these claims could reduce the incentive for

<sup>4</sup> For Mr. Perkins' dissent on this subject see his statement in the final section of the report.

<sup>5</sup> Mr. Galbraith makes the following comment. There are no appreciable costs for discovery of oil shale. As noted in the report, the location and quality of reserves are largely known. When the development is on government land, it is obvious no privately owned wealth is being depleted. In the absence of discovery costs and assuming that private firms need not be compensated for the depletion of public property, there is no conceivable justification for a depletion allowance apart from the fact that the recipients, like all citizens, would enjoy the exemption from taxes.

<sup>6</sup> For Mr. Childs' views on depletion allowance and exploratory costs see his statement in the last section of this report.