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● (1115)

[*English*]

The Vice-Chair (Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.)): Good morning. We should start, because we're running a little bit behind.

We seem to have a few technical difficulties, so witnesses especially, could you identify yourselves before speaking? I'll try to introduce you, but I think we're having some technical problems. I think we're especially speaking to the people who are on teleconferencing. Could you identify yourselves?

We are here pursuant to Standing Order 108(2) for a study on taxation of the oil sands industry. We have a panel of six witnesses.

If you could keep your presentations to five minutes, we'd appreciate it, so we can allow the members to ask questions.

We will start with the Green Budget Coalition, Monsieur Iterson. Thank you.

Mr. Andrew Van Iterson (Program Manager, Green Budget Coalition): Thank you.

Mr. Chairman, honourable committee members, thank you for inviting me to speak to you today. The Green Budget Coalition, as many of you know, comprises 20 of Canada's leading environmental and conservation organizations, which in turn represent over 500,000 Canadians as members, supporters, and active volunteers.

As you are well aware, Canadians are now demanding environmental progress. We—and I expect all of you too—want clean air, clean water, and effective action to reduce climate change; yet preserving Canada's environment continues to be akin to swimming against the current. We make occasional progress, and then we slip back because we have not yet aligned our economy with our environment. Too often we still view environmental progress as threatening economic health, and vice versa.

When Canada finally shifts to a healthy green economy, the pursuit of profit, cost-savings, and greater economic activity will inherently serve to preserve and restore environmental and human health. Similarly, companies who pursue environmentally friendly strategies should save money, increase profits, and gain a competitive advantage. Unfortunately, we are not there yet.

The coalition believes that to achieve a dynamic green economy we must integrate environmental values into market prices using well-designed fiscal policies, much as many OECD countries have already done.

One of the first steps to doing this, as the OECD has reiterated, is to phase out subsidies to limited energy-intensive resources such as conventional oil and natural gas. Such subsidies expedite the development and use of one-time polluting energy sources while making it less economically viable to develop low-impact renewable energy whose growth is pivotal to our environmental future.

The Green Budget Coalition believes that the accelerated capital cost allowance for the oil sands should be eliminated. It is expensive, unnecessary, and a waste of taxpayers' money.

My colleague Amy Taylor of the Pembina Institute has done substantial research on the oil sands ACCA and has submitted a more detailed brief, which the Green Budget Coalition fully supports. As she was unable to appear before you this week, I want to highlight some key points from her submission.

The oil sands currently qualify for a 100% accelerated capital cost allowance, which is much higher than the 25% provided to conventional oil and natural gas.

In 2000, the Commissioner of the Environment and Sustainable Development undertook a study of the level of federal government support for energy investments in Canada. His analysis found that the ACCA results in a significant tax concession for the oil sands. The finance department estimates that the benefit of this tax concession is between \$5 million and \$40 million for every \$1 billion invested. This means that from 1996 to 2005, anywhere from \$200 million to \$1.6 billion in tax expenditures was allowed because of the oil sands ACCA.

As you can see in the bar chart included in our brief, these figures continue to escalate. The ACCA for oil sands is a very generous tax subsidy that is no longer needed. It was established to help spur capital spending and increase production from the oil sands. This it has done in spades. Between 1995 and 2002, capital spending in the oil sands increased by a staggering 1,649% and oil sands production increased by 131%. Furthermore, in the last decade technical know-how has improved, and oil prices have increased by over 200%.

The oil sands ACCA is clearly an unnecessary tax expenditure and a waste of taxpayers' money. The oil sands sector no longer needs this preferential tax treatment. It's a highly profitable sector. In fact, the oil and gas industry achieved a historical record for profits in 2005, when operating profits reached $30.3 billion, an increase of 50% over 2004.

To conclude, the Green Budget Coalition recommends that the Department of Finance eliminate the 100% accelerated capital cost allowance for the oil sands and put oil sands on a level playing field with conventional oil and natural gas. This can be done by eliminating the accelerated treatment currently granted to the oil sands within the Income Tax Act.

Thank you.

● (1120)

The Vice-Chair (Mr. Massimo Pacetti): Thank you, Mr. Van Iterson.

From the University of Ottawa, we have Mr. Caccia.

[*Translation*]

Hon. Charles Caccia (Senior Fellow, Institute of the Environment, University of Ottawa): Thank you, Mr. Chair.

I'd like to thank committee members for inviting me to attend this meeting. I also take the opportunity to congratulate you on the motion you passed.

[*English*]

In my view, it has great potential for exploring the potential of new and most desirable policy approaches.

In addition to the paper I have submitted for your consideration, which in essence says that the current federal tax regime is antiquated, out of synch, perhaps even absurd, and the subject, internationally speaking, particularly at the OECD, of criticism ranging from despair to derision, there are five points I would like to make here this morning.

The first point is about your committee. It could play, it seems to me, a determining role in solving the problems caused by climate change. You could give guidance to your respective caucuses and to cabinet. You're entering a territory that other finance committees in earlier Parliaments have carefully avoided. Your findings could guide the Department of Finance, which, despite its claims to the contrary, can play, and does play, a central and very influential role in the process of policy development, federally and provincially.

For all these reasons, the motion before us today could represent the initial step towards a badly needed substantive policy for the Government of Canada. In so doing, you would be upholding the fine tradition established by other committees in the House and the Senate wherein they tackled difficult policy areas, be it in health, languages, justice, or the environment.

My second point has to do with your motion itself. It addresses two areas. One is the taxation regime for fossil fuels. In the text of my submission, I've done my best to highlight the highly contradictory nature of Canada's tax system. It promotes and encourages greenhouse gas emissions at a time when we want to reduce them. No wonder, therefore, we are encountering great difficulties.

It does not make sense to have the Government of Canada attempting to ride two horses galloping in opposite directions, the Kyoto horse in one, and the fiscal horse in the opposite. Canada's tax system has to be modernized and redesigned to facilitate and not to hinder the achievement of the Kyoto objectives.

The other area of taxation addressed in your motion is renewable sources of energy. While achieving a level playing field might have been desirable a few years ago, today, with only six years separating us from 2012, what we need to achieve is a playing field considerably tilted in favour of renewables, as much as it is tilted in favour of fossil fuels now. That, coupled with a program offered by the climate change innovation fund, could take us a long way. In addition, perhaps a Canadian solar energy institute funded jointly by public and private sources could be very helpful in stimulating innovative thinking and innovative technologies.

The third point I would like to make is rooted in the report by the Commissioner of the Environment and Sustainable Development. In 2004 she made an interesting observation:

> Finance Canada has not done a systematic job of assessing opportunities and options for using the tax system to advance sustainable development....
>
> In other words, the federal government has not established a systematic basis for deciding whether and how to tap the potential of the tax system to help shift Canada toward a sustainable economy.

She also said:

> ...the federal government has acknowledged the important role that economic instruments—including tax measures—can play in making progress...

She concluded that the OECD

> ...has also repeatedly noted that Canada needs to make more use of economic instruments and, in particular, “green” tax reform, for environmental improvement.

Mr. Van Iterson has already referred to this.

Finally, the Commissioner notes that Parliament's role in holding the government to account is vital to progress on sustainable development, and this role, I suggest, is important for government backbenchers as well as for opposition backbenchers, because what they have in common is definitely their desire to be re-elected.

Finally, the Commissioner writes in section 45 of her report:

> It is time for the deputy ministers' Environment and Sustainable Development Coordinating Committee to deliver....
>
> This is a unique and powerful mandate, coming directly from the Clerk of the Privy Council. In my view, the Committee is falling short of its potential...
>
> It is up to senior departmental officials to better use the opportunities available to advance sustainable development.

The fourth point, Mr. Chairman, has to do with a communication by the assistant deputy minister of finance, Mr. Drummond, who is no longer holding that position, when he wrote on fiscal matters raised by the committee on the environment and sustainable development. He made a number of interesting points that may be helpful to your committee. Time does not permit me to go into the details, but his letter and the appendix are public documents, easily available from the clerk of the committee. Your committee may want to explore the taxation areas analyzed by Mr. Drummond to determine their potential, which in my view is considerable, and incorporate the findings in your report. It may turn out to be a very worthwhile exercise.

The last point, Mr. Chairman, is about observations by the minister and a quote. The minister says:

> Environmental issues–including climate change–have traditionally been placed in a category separate from the economy and from economic policy. But this is no longer tenable. Across a range of environmental issues—from soil erosion to the depletion of marine stocks, from water scarcity to air pollution—it is clear now not just that economic activity is their cause, but that these problems in themselves threaten future economic activity and growth....
>
> And we now have sufficient evidence that human-made climate change is the most far-reaching—and almost certainly the most threatening—of all the environmental challenges facing us.

That, Mr. Chairman, was Gordon Brown, the United Kingdom's Chancellor of the Exchequer.

● (1125)

The Vice-Chair (Mr. Massimo Pacetti): Thank you, Mr. Caccia. We are way over on the time. Thank you.

We have to move on. If you have something else, perhaps when the members ask you a question you can insert that in your comments.

From the Mining Association of Canada, Mr. Peeling. Five minutes, please.

Mr. Gordon Peeling (President and Chief Executive Officer, Mining Association of Canada): Thank you, Mr. Chair.

Thank you to the committee members for the opportunity to speak with you today on this very important subject.

I will focus my brief introductory remarks this morning around three points. First, I would like to describe the economic impact of the mining and oil and gas sectors, including the oil sands. These sectors underpin much of the present prosperity we see in Canada, including the strong fiscal position of the federal government. Second, I would like to provide some context to the tax treatment currently provided to oil sands investment in Canada. Third, I would like to discuss the accelerated capital cost allowance tool.

On the economic impact, the Canadian mining industry employs almost 400,000 people and contributes $42 billion to gross domestic product. The oil and gas industry, including oil sands, employs a further half-million Canadians, and the industry trade surplus contributes four-fifths of Canada's merchandise trade balance in a given year.

The oil sands segment alone employs some 200,000 people in activities relating to existing and new projects. This is almost a tenfold employment increase from a decade ago and has come with perfect timing, helping to offset a comparable national decline in manufacturing employment.

The oil and gas industry paid over $26 billion to Canadian governments in 2006 in the form of royalties, lease bids, income taxes, and other payments. That is a lot of money, $26 billion. Some $5 billion of this figure represents corporate income tax payments to Ottawa. In addition, it is important to note that industry employees and oil sands employees are highly paid, considerably higher than the average manufacturing or financial sector employees, for example, and personal income taxes also amount to many billions of dollars.

While primarily centred in western Canada, the economic benefits of oil sands development span the entire country, with considerable spending taking place in Ontario and Quebec. The oil sands represent a form of anchor tenant at present, attracting world-scale goods and services companies to Canada.

The industry also brings important employment and investment benefits to Canada's aboriginal communities. For example, an estimated $1.5 billion worth of contracts have been awarded to local aboriginal companies over the past decade.

Turning to tax treatment, the tax treatment of the oil sands sector is affected by many facets, including its levels of exploration, capital investment, research, employment, and profitability. In some areas, such as the corporate tax rate, the oil and gas industry has paid a higher tax rate than other sectors for several years, a rate that is finally being equalized this year.

Accelerated capital cost allowance is the most significant tax structure element for the oil sands. Finance Canada classifies ACCA as a tax deferral. It delays the timing of taxes payable from the early years to the later years of a project, once the capital has been recovered.

It generally takes many years of planning, approval, consultation, engineering, and construction before an oil sands project reaches the production stage. Suncor, for example, has recently received approval for its Voyager project, yet it will not reach production until 2012.

The ACCA treatment accorded to the sector is important. It reflects the fact that very large amounts are being invested over long time periods in important and risky natural resource projects before receiving a financial return. The ACCA has been part of the fiscal regime of Canada since 1974, and in 1996 was extended to in-situ oil sands costs. The ACCA regime in the oil sands works well. Companies are investing large sums and projects are gradually moving forward.

Note also that 33 of the 65 oil sands projects are in post-payout stage, paying 25% royalty. Capital is being invested, projects are being completed, many have paid off their original investment, and they are now reaching the full royalty stage. In other words, the system is working as intended.

It is important to note that the ACCA treatment of oil sands investment is the federal component of a federal-provincial tax package. It was established by the previous government as an essential prerequisite to enable the development we are witnessing today. Weakening this treatment would impose a chill on Canada's investment climate and would significantly devalue Canada's natural resources, negatively impacting the provinces' resource revenues, as well as employment and GDP.

And for those who argue that such a mechanism is unnecessary, given current oil prices, I would point out that it was but a few years ago that oil was earning $20 to $30 per barrel. It is a cyclical industry, and there is no guarantee prices will remain at current levels over the long term. Some analysts are currently of the view that cost pressures are making oil sands projects relatively expensive and risky and that further oil price declines could cause a considerable softening or deferral of investment.

● (1130)

Let's talk about ACCA and other sectors. As a final point of my opening remarks, it's worth noting that the oil sands industry is not unique in receiving ACCA treatment. Incentives for investment in efficient or renewable energy production equipment are provided through ACCA under class 43(1) of the Income Tax Act. Cogeneration, wind turbines, small hydro facilities, solar and photovoltaic equipment, geothermal, landfill methane capture, and many other energy technologies and industries are provided with accelerated writeoff treatment.

In addition, committee members should be aware that excise tax exemptions and a broad range of R and D incentives and technology investments are also provided in support of these industries.

In closing, allow me to quote Department of Finance remarks contained in a recent response to a petition from the Sierra Legal Defence Fund. To quote:

> The resource sector is vitally important as a source of investment, exports, income, and jobs in many communities in Canada and to the country as a whole. The sector also faces distinct commercial risks, including the uncertainty related to exploration, large capital requirements for development, and financial vulnerability due to price volatility and cyclicality. At the same time, investments in resource exploration can generate significant benefits beyond those captured by the firm performing the activity. Many resource producing jurisdictions provide special tax treatment for similar reasons, an important factor to be taken into account if Canada is to be competitive in attracting internationally mobile capital.

These Department of Finance remarks accurately summarize the situation, and I could not state things more eloquently myself, Mr. Chair.

That will conclude my formal remarks. I would add, however, that I have not discussed the environmental theme in my remarks.

The Vice-Chair (Mr. Massimo Pacetti): Thank you, Mr. Peeling.

We're going to go to the video conference people. I have here, from Nexen Inc., Mr. Marvin Romanow, if you would like to go first.

Mr. Marvin Romanow (Executive Vice-President and Chief Financial Officer, Nexen Inc.): Thank you very much for giving us the opportunity to speak to you today.

I have a few comments on Nexen. We're a $20-billion worldwide energy company. We operate in roughly half a dozen countries in the world. We've been involved in the oil sands for several decades, and currently we are investing, together with a joint venture partner, $4.6 billion in bringing in an oil sands plant on stream later this year.

I want to make three or four points.

The first point is that investment thrives on consistency and stability. Investment returns in the oil sands today are in the mid-teens, and despite higher oil prices, margins and returns on these new investments have been eroded largely by higher input costs. This has already happened. And if you look forward, prices in the oil sector have dropped roughly 20% from the peaks we saw last summer. We appear to be facing an area where we'll have new environmental obligations to meet, which are uncertain. We're undertaking a royalty review, which may pose an additional burden on the sector, and collective agreements in the building trades area are up for renegotiation this spring. This is not really a great, conducive environment to be further tinkering with the economic system, and this is not conducive for the big investments that have to be made.

If you look at some of the policy reasons that ACCA was originally put in place back in the mid-1990s, it was to recognize the very substantial investments that are made in these large mining and oil sands businesses. It was also to recognize the large single-event risk that occurs when these investments are made. If you've read the newspapers over the last five years, these single-event risks have been substantial. It is unfortunately more common to read about cost overruns in oil sands plant development than it is to read the reverse of that. So this is not a business that can handle an infinite amount of tinkering and additional obligations put onto it.

The second point I'd like to make is the comment on subsidies. First of all, we deduct our actual cost, both capital and operating, in running this business, just like any other industry. The structure of the oil sands business and its tax and royalty regime is similar to what you find in many international jurisdictions. It is also consistent with the theme of big capital investments moving forward and the requirement to earn a return.

There is also a natural structure here, with oil and gas organizations having higher embedded costs of capital than governments. So from a financial point of view, it makes eminent sense to move these projects forward, to have oil and gas companies get their returns in the earlier period, and governments, with their lower cost of capital, get their returns during a later, after-payout period. They also get spinoff benefits, annuity benefits, and a future tax base from which economies are built.

There has been much said about the large absolute dollar profits in our industries, but nobody remembers the very substantial investments that are made. In many ways, these large profits are related to the size of the industry as opposed to high rates of return. This is no more complicated than, if you go to the bank and put in $1,000, you would expect to make a higher absolute earning on that than if you went and put $100 into the bank. These returns have to be put in the context of the investments that are being made.

The oil sands today, at current production rates, have roughly a 500,000-year resource life index. This is not an over-invested sector. Typical in our industry would be five to fifteen years. If we look at the period of time we've been at the oil sands, we had a large plant go in 40 years ago—and that was Suncor. Syncrude went in approximately 30 years ago. Shell went in a few years ago. As well, we have a number of smaller projects. But we have been working hard over a long period of time to bring this resource to market.

If you look at what brings innovation into our sector, it is, number one, an enhanced economic outcome. It is a robust, consistent, and supportive investment environment. Capital is among the most portable commodities in the world, and commercial organizations have many choices worldwide.

● (1135)

Canada has a chance to be a worldwide leader in sustainable, economic, and environmentally supportive oil sands development, and we need to support it.

The Vice-Chair (Mr. Massimo Pacetti): Thank you, Mr. Romanow. You're right on the five-minute mark. Thank you.

I'm going to go to the next presenter. From the Canadian Association of Petroleum Producers, we have Mr. Stringham. Go ahead, please.

● (1140)

Mr. Greg Stringham (Vice-President, Markets and Fiscal Policy, Canadian Association of Petroleum Producers): Thank you.

I'm hopeful that, given the short notice, you were able to receive the package of slides and distribute them. Is that correct, Mr. Vice-Chairman?

The Vice-Chair (Mr. Massimo Pacetti): Yes, I have them here in front of me.

Mr. Greg Stringham: Thank you.

I don't plan on going through the full extent of that, but I thought it would be useful to provide your committee with the background documents associated with what's going on in the oil sands industry right now. I will touch on a couple of them to help clarify some of these points.

As Mr. Peeling has already said—so I won't repeat many of the things that are in the first few slides of that—the Canadian oil and gas industry is a major driver in the Canadian economy today and a major contributor to government revenues through royalties, taxes, and fees.

Recently we have heard a number of comments in the media and amongst your committee and others that there is a subsidy that's being provided to our industry by the government. In response to that, we feel it's important that we reiterate the facts about what is going on, to help ensure a full understanding of that.

The first assertion we've heard, which has been covered very well by Mr. Peeling, is that the oil and gas industry pays no royalty or no tax. That couldn't be further from the truth, as you've heard. Mr. Peeling has covered that. But I did want to add one point regarding tax and royalties that he mentioned, and that is the fact that in addition to the direct tax, there is a significant amount of indirect tax that is paid through to local governments in property tax, and to the federal and provincial governments through income tax on employees and on incomes that are generated by our industry.

The Canadian Energy Research Institute recently conducted a study—which is shown on slide 3 of the package I gave you—that showed that just for the oil sands sector, for the period from 2000 to 2002, there was $123 billion that will be generated for governments of all levels—federal, provincial, and municipal. You can see the split that's associated with that.

Actually the federal government, according to that study, because of the indirect taxation, ends up getting 41% of that $123 billion. Now, lest we think that all of these benefits accrued to western Canada, the investment in the oil and gas industry this year of $40 billion will generate economic activity, employment, and taxes across the country. We have a very strong need for goods and services. In fact, Alberta buys more from Ontario and Quebec than they get. So growth in the oil sands industry is benefiting not just western Canada but, as again shown in that study by CERI, there's $155 billion in GDP that is generated to Ontario and Quebec and Atlantic Canada. Along with that, there are employment benefits, to which Mr. Peeling referred. I'll just put a number to that: there are 1.8 million person-years of jobs generated from this activity that go into Ontario and Quebec and Atlantic Canada.

Certainly the second assertion we've heard is that the oil and gas industry receives over $1.5 billion per year in subsidies directly from the government. We've addressed this assertion many times over the past few years, and it's based on an old and incorrect analysis that included many of the tax elements in a system that no longer applies. The assertion relates to tax elements that are simply, as Mr. Romanow referred to them, deductions of actual expenditures. Most of those are the Canadian exploration expense and the Canadian development expense, which are deductions of amounts that we spend on exploration, development, and drilling. Many of the elements in that number that has been thrown around are things that are just no longer there when it comes to oil sands.

For example, the resource allowance is mentioned. That resource allowance is gone as of this year. Earned depletion is mentioned as a tax feature. It is long gone, since 1990. The Syncrude remission order was mentioned. It is now gone. The investment tax credits are gone, except for of course in Atlantic Canada, where they apply to all industries.

The one that actually gets the most attention right now is the accelerated capital cost allowance, and this is where I'd like to spend the last few minutes of my time.

The accelerated capital cost allowance is not a subsidy for the oil and gas industries. As has been explained by other witnesses, it is simply the deducting of capital costs, with restrictions that apply only to the extent of the revenue generated from that mine or that project. This is applicable to the entire mining industry across Canada—from iron ore to potash to coal to diamonds—including oil sands. This has been the prescribed mechanism for deducting capital costs for the mining sector since 1974. Within the oil sands industry, it has been applying only to the oil sands projects, and it levels the playing field between oil sands mining and other mining projects across Canada.

In 1996 it was extended to include the oil sands in situ projects. Those are projects that are not mines but that extract oil from oil sands projects deeper underground. The ACCA is a deduction only of costs that are actually incurred. There has to be revenue from the project before that cost can be deducted. And for an illustration of this, I would ask you to turn to slide 7 in what I handed out. That slide is entitled “Capital Cost Deduction for Income Tax”, and it's simply a bar chart. What it tries to explain is the misconception on what accelerated capital cost allowance is.

● (1145)

As you can see from that chart, you get normal capital cost allowance, but only two to three years after you have spent that money in the oil sands, because you will not get production until year six on most of those projects. And you can see that in years six, seven, and eight what you really are doing is taking the deductions that would happen from year six to year twenty and moving them forward, but again, limited only to the revenue that's generated from that individual mine. So it is not a 100% writeoff of the entire capital in the first year.

Then you'll notice in years nine through seventeen on that chart, actually the deduction then is lower for the remainder of the life of the project. A lower deduction of that same $100 cost in this example means that there are higher taxes generated to governments during those later years of the project. So you can see it is a shift in timing of the same $100 deduction, but it is not a subsidy to the industry.

The Vice-Chair (Mr. Massimo Pacetti): Mr. Stringham, if you can just wrap it up, I'll give you 30 seconds.

Mr. Greg Stringham: Thank you very much.

The purpose of this accelerated capital cost allowance was the same as it was in 1974 and as when extended to the in situ in 1996. It was to recognize large capital costs, long lead times, and high risk of volatile prices with financing risk. It is fair to say that today these reasons are still valid, and the energy security implications are now even more important.

In the last ten seconds, I'd like to simply talk about how the accelerated capital cost allowance has also been extended to other sectors, which Mr. Peeling has also mentioned.

One of the really—

The Vice-Chair (Mr. Massimo Pacetti): Thank you, Mr. Stringham. We're way over.

Mr. Greg Stringham: Thank you.

The Vice-Chair (Mr. Massimo Pacetti): You'll get a chance to reply when the members ask you questions.

For the next witness, from EnergyINet we have Dr. Michael Raymont. Go ahead.

Dr. Michael Raymont (Chief Executive Officer, EnergyINet): Thank you, Mr. Chairman and members of the committee. It's a pleasure to speak to you from Calgary.

I received about four hours' notice for this, so you have no handout from me at all. I'm going to speak totally off the cuff. If you want further information provided later, I can do that.

EnergyINet is a completely neutral body. It is neither a lobby group for the industry nor a representative of environmental interests. It is purely a neutral gathering place and network to provide information on energy technologies.

My own background is not as a tax expert or an economist but as somebody who's worked in the areas of energy R and D, innovation, and venture capital. I've been an entrepreneur and a senior government official. My remarks are made in this context.

First of all, Canada need the liquids that are produced and will be produced by increasing activities in the oil sands. We have no other choice if we are to preserve our role as a net energy exporter, with the enormous economic benefits that go along with that.

In spite of the best will in the world on renewable resources—and I applaud initiatives to accelerate the deployment and introduction of alternative and renewable energy resources—many experts will tell you that there is no doubt that we will be using fossil fuels in the amount of 80% to 90% for our energy supplies for the next 50 to 100 years. No tax measures will alter that reality. It is based solely on the amount of energy that this world consumes. Any energy economy measures, any conservation measures, will not close that gap.

So we need the oil that will come from oil sands projects. There are no other practical sources for this. In fact, conventional oil is declining at an increasing rate. Gas has probably plateaued and will decline also.

Not producing oil would give rise to huge negative economic consequences, potential geopolitical tensions, and so on and so forth. We're asked, just as an example, why we can't turn to wind power, and I'd like to give you some numbers on that. A million barrels a day of oil is equivalent to 75% of the total Canadian electricity-generating capacity installed today. It would require 20,000 wind turbines, which is one and one-quarter times the world's installed capacity, and five years of the total wind-turbine production of every manufacturer in the world simply to replace that million barrels a day, dedicated just to Canada. It won't happen.

And anyway, wind turbines produce electricity. Airplanes don't fly very well on electricity. They need liquid fuels. We must have a source of liquid fuels.

The problem, then, which I think can be rationalized with the environmental concerns, is the need to integrate energy and the economy and environmental matters. This comes down simply to a question of providing the right incentives and risk-sharing by government to make certain that innovations that will reduce greenhouse gasses, reduce water usage, and reduce conventional fuel usage are brought into effect.

Canada has had for a long time a very high R and D tax writeoff. This has been ineffective in spurring business research and development. We have one of the highest rates of R and D tax credits. At the same time, we have one of the lowest OECD rates of corporate R and D. Why? Because tax writeoffs for R and D encourage R and D, perhaps, but they do not encourage the implementation and commercialization of such technologies.

It has been repeatedly shown that capital cost allowance and other capital deployment incentives encourage the deployment and commercialization of technologies and innovations. Therefore, my strong recommendation is that this committee look very seriously at encouraging innovations—innovations that would mitigate the impacts of greenhouse gases, that would mitigate the use of excessive amounts of water, that would mitigate other negative environmental effects of increased oil sands production—by providing strong capital incentives for the deployment of technologies that provide those mitigations. Those technologies are today either there or close. We see many oil sands project technologies that in fact have focused on such things as gasification, the possible use of nuclear fuels as a source of energy in the oil sands, alternative sources for hydrogen, and so on and so forth. I'll leave the experts to figure out what the level of risk is and what's tolerable and what's not.

● (1150)

I think the capital tax structure can be used very effectively to encourage oil sands production, which is needed if we are not to fall into a total energy-deficit picture, and at the same time, it can be used to help mitigate the environmental negative impacts.

Thank you.

The Vice-Chair (Mr. Massimo Pacetti): Thank you, Dr. Raymont. I can see this is not an easy subject; almost everybody went over on their time.

Perhaps we can get to members. We're going to go for six minutes on the first round. Mr. McKay, and then Monsieur St-Cyr.

Hon. John McKay (Scarborough—Guildwood, Lib.): Thank you, Chair, and thank you, witnesses.

First of all, I want to see whether we're talking about the same thing here. Mr. Stringham, in his paper, says that the oil and gas industry receives over $1.5 billion a year and then he goes on to say why that's not true. Mr. Caccia, in his paper, says the most recent data produced by the Pembina Institute and not disputed by Finance Canada show that the industry receives $1.4 billion annually in federal tax breaks. Provincial tax breaks are considerable too, but harder to quantify.

So my first question is to both Mr. Stringham and to Mr. Caccia. Are you talking about the same thing?

The Vice-Chair (Mr. Massimo Pacetti): Mr. Stringham.

Mr. Greg Stringham: From my perspective, I believe that is the same number. It's a number that was generated based on a 1997-to-2002 study originally by the Parkland Institute and then adopted by the Pembina Institute. So it is, I believe, the same number, which is again, as I said, historical and is not accurate to today's reflection of what's going on.

Hon. John McKay: So in your view, Mr. Caccia got it wrong.

Mr. Caccia.

Hon. Charles Caccia: The Pembina study was published in January 2005 and it was evidently based on data of preceding years. It may actually require an adjustment, but nevertheless there it is a fact that the ACCA treatment, which includes, as mentioned by Mr. Stringham, an accelerated capital cost allowance and other special treatments, is still a valid point. Whether the trigger is exactly the same, that may change from year to year.

Hon. John McKay: Mr. Stringham has been pretty detailed here. He says that the resource allowance is gone, the earned depletion allowance is long gone, the Syncrude remission order is gone, the investment tax credits are gone for everywhere except Atlantic Canada, and then he says the ACCA is not gone, but it's an issue of timing.

Is that what we're talking about here, an issue of timing as to the recognition? Because obviously for the accelerated capital cost allowance the timing is far quicker than for conventional sources. Is that the source of the dispute between the two of you?

● (1155)

Hon. Charles Caccia: I don't think there's a dispute between the two of us. We are looking at the tax system as it exists, the Canadian development expense program, the Canadian exploration expense, the accelerated capital cost allowance for oil sands, and the one that has been now abandoned, the resource allowance. Nevertheless, these are all programs that have existed and that require a revision on the part of the legislators to determine whether they are still valid or not.

Hon. John McKay: Mr. Stringham's point is that they are all either gone or long gone and the only one that still exists is a timing issue.

Hon. Charles Caccia: Well, to the best of my understanding, the exploration expense still exists and the Canadian development expense program still does.

The point is larger than that. The point is whether the taxation system we have in place favours greater greenhouse gas emissions or not.

Hon. John McKay: I don't dispute your larger issue. I just wanted to see whether we were talking on the same page on this particular $1.4-billion, $1.5-billion issue.

Hon. Charles Caccia: You would have to put the question to the Deputy Minister of Finance as to the exact point we are at in the year 2007. We can only go by the existing data that are available to the public.

Hon. John McKay: Okay...fair comment.

Let me go to the general issue here, which is that depreciation or capital cost allowances are supposed to reflect the economic life of an asset.

This is to the folks in Calgary. We as a committee had the opportunity to be in Fort McMurray. We saw some of the equipment. It's pretty impressive equipment, and they're going 24 hours a day, 365 days a year. For that equipment in the oil sands, does that capital cost allowance actually reflect the economic life of that particular asset, and in particular, those big shovels, those big trucks, etc.? Is the industry in fact turning over that equipment once a year?

Mr. Marvin Romanow: No, I think it is not turning it over once a year. The life of those assets would be, in the trucks and the shovels, in the neighbourhood of five to ten years.

What I would also point out is that tax policy and royalty policy almost always, worldwide, recognizes that the people who put up their investment first are the ones who have to get their capital first, because they have a higher cost of capital, and if you stretch out the period over which they're allowed to recover their costs, those investments may never be made.

Mr. Greg Stringham: Let me just add one point.

On that as well, they need to recognize that it's not just written off in one year. The accelerated capital cost allowance can only be written off to the extent of revenue from the mine, and it has to wait until you actually have production coming forward or be subject to the available-for-use rule. So there are restrictions on it. As in the example I showed, it actually doesn't all get written off in year six when you start up. It's limited, and it gets stretched out over a longer period. But it is not over the entire life of the mine, that is correct.

Hon. John McKay: Thank you.

The Vice-Chair (Mr. Massimo Pacetti): Thank you, Mr. McKay.

[*Translation*]

Mr. St-Cyr, you have six minutes.

Mr. Thierry St-Cyr (Jeanne-Le Ber, BQ): Thank you, Mr. Chair.

I listened carefully to the evidence and I was somewhat surprised at the seriousness of the situation that was reported by the representatives of the oil companies. The situation is serious for our environment, but definitely not for the oil companies.

They raised three main arguments for maintaining the tax benefits. The first is that the oil companies generate economic activity. However, it seems to me that, if we encouraged other industries, such as renewable industries, they would also generate economic activity.

I'd like to ask Mr. Caccia or Mr. Iterson the following question. If we developed larger numbers of renewable energy companies in Canada, would those companies also pay taxes? Wouldn't their employees also pay taxes? Lastly, wouldn't that generate as much economic activity, or perhaps even more? Would that be economically advantageous for Canada?

Hon. Charles Caccia: The answer is yes, but I think that the tax treatment currently given to the renewable industry isn't as generous as the incentives given to the non-renewable industry. Instead of establishing an equal playing field, as they say, we should establish a fiscal field that should be much more advantageous for renewable energy by 2012.

● (1200)

Mr. Thierry St-Cyr: All right.

The second argument presented to us concerns the fact that, ultimately, it was not really a subsidy or a genuine advantage that was given, since, ultimately, in any case, tax will be paid later.

That argument somewhat surprised me coming from representatives of the oil industry, because, if it isn't a tax benefit, why are they asking that it be preserved? It seems clear to me that, if they want to keep it, it's because it's economically profitable; it's an advantage. If it's advantageous for them, then it's necessarily a cost to government and society.

Do we have an idea of the value that benefit represents from a public finance standpoint? Do we have an idea of the cost of this benefit that we're granting the oil companies?

[*English*]

Hon. Charles Caccia: I can answer, for instance, that Mr. Drummond, when he appeared before the Standing Committee on Environment and Sustainable Development a few years ago, was talking about tax expenditures as calculated by the Department of Finance that were accorded to the oil sand industries, and they would range anywhere between 0.05% and 4%, which at that time, in his calculations, would be a tax expenditure anywhere between $75 million and $600 million, which is only a loan to the oil sands industry as a result of a tax concession that is presently given.

Perhaps Mr. Van Iterson has other points to make.

Mr. Andrew Van Iterson: Two points. As I mentioned, the finance department says that the cost is between $5 million and $40 million for every billion dollars invested. That's a pretty wide range, and I'm willing to bet it's near the higher end of that range.

As I mentioned, at the higher range, that would be about $1.5 billion over the last ten years that has been deferred. The Commissioner of the Environment and Sustainable Development said that it's a significant tax concession—not that it's money deferred, but that it's a tax concession and tax benefit.

[*Translation*]

Mr. Thierry St-Cyr: We were told about changing oil prices in the future. It was said that this investment would not be more profitable if they no longer had these tax benefits.

First, do we really think that the price of oil will go back down? Second, is it up to government to bear the risk that the oil companies take by investing in this field? Third, are the oil companies in such a poor financial position that they can't do without this tax benefit?

[*English*]

Hon. Charles Caccia: The risk existed when the price of oil was about $20 a barrel. That risk has now disappeared, and it's most unlikely, to say the least, that the price of oil will go down. The demand is increasing and the supply is decreasing, so why on earth do we need to talk about the risk? The people in Calgary are not talking all the way to the poorhouse; they're doing extremely well. So let's face the reality of today, not yesterday, as Mr. Stringham was trying to do earlier, and see whether we really have reached a point where the tax system needs to be brought into this century, because it currently belongs to a time when the price of oil was one-third of what it is today. That reality is gone, but people are still trying to make us believe that reality is still with us. This is an anachronism, and our backward taxation system is why we are laughed at in international bodies.

[*Translation*]

The Vice-Chair (Mr. Massimo Pacetti): Thank you, Mr. St-Cyr.

Mr. Dykstra, you have six minutes.

[*English*]

Mr. Rick Dykstra (St. Catharines, CPC): Merci.

This question is for you, Mr. Stringham.

Mr. St-Cyr alluded to the fact that very few are actually benefiting financially from the industry itself and that CEOs are lining their pockets, where all the benefits lie.

You commented on the $123 billion in income tax generated from the industry. Could you expand a little bit on that in terms of the impact it has across the country, and obviously expand on the types of numbers we're talking about in terms of those employed?

● (1205)

Mr. Greg Stringham: Absolutely. Thank you very much.

The number I put forward was from the Canadian Energy Research Institute study that looked at oil sands alone, not the entire industry, over the period 2000 to 2020. Those oil sands generated revenue of $123 billion to governments, including the federal government and relevant provincial governments, and the other provinces as well, and associated municipalities.

We have seen this dramatically affecting Canada all the way across. We have had the Canadian Manufacturers' Association say this has been a lifeline to them as they look for opportunities to supply goods and services to the oil sands, which then generate wealth throughout all of Canada.

Everyone is very familiar with the labour issues we are struggling with in the oil sands area, which have actually turned out to be an economic boon for many people coming from Atlantic Canada, who are bringing their skills and providing services to us and returning that revenue back to those provinces.

So it is very widespread across Canada.

Mr. Rick Dykstra: Thank you.

One of the other things you spoke about was the example in the chart of exactly how the accelerated capital cost allowance works.

Mr. McKay alluded to being down in Fort McMurray and having had opportunity to tour one of the facilities, and one of the things we saw were a couple of huge trucks that go 24 hours a day to move materials in and out.

One of the things that would certainly be helpful to me would be if you broke it down and took me through exactly what happens to a vehicle like that after it has been purchased, or how the accelerated capital cost actually works for one of those vehicles.

Mr. Greg Stringham: Absolutely. And whether it's a vehicle or the opening up of a mine, it really depends on when they are actually purchasing that vehicle.

Let's take a vehicle that is put on order when they're planning to open up a mine. They begin to go through the regulatory process five to six years in advance and begin spending in year one or two or three. The trucks would probably be purchased in year four, but they wouldn't be available for use until two years later, when the mine was open, in year six. At that point in time, the trucks would then be part of the normal tax deduction. So you're only going to deduct the cost of that truck once. What will happen is you'll deduct it on a declining balance basis to start with, until you get revenue from the mine, and then you'll be able to deduct the remainder of that cost over the number of years it is eligible for the amount of revenue coming from the mine.

But you have to realize that if you opened up a 100,000-barrel-a-day mine, you may not have enough revenue in the early years to write off the entire amount of that truck, so it would get written off over the two, three, or four subsequent years, once the mine started production.

Mr. Rick Dykstra: So the accelerated capital cost allowance—I'll speak from my own perspective—gives the company the opportunity to write off the vehicle we're speaking about in 12 months. That isn't actually the case.

Mr. Greg Stringham: Unless you have substantial revenue from the mine, you have to write everything off equally, so you can't just pick that truck and write it off. It is limited by how much revenue is coming out of the mine. That is a strict limitation put on ACCA that is not put on other capital cost allowances. For other capital cost allowances, if you have enough revenue within your company, you can take that cost and write it back off on a declining-balance basis against that revenue. Here it is restricted, and all mining sectors—oil sands, as well as iron and diamonds and coal and potash and all the others—are treated equally in this respect.

Mr. Rick Dykstra: Thank you.

Mr. Peeling, one of the comments you made, and I put a question mark behind this, was about the sort of post-payout royalty stage. I probably don't have a lot of time left, but could you expand just briefly on what you meant by that?

Mr. Gordon Peeling: Certainly. You may know that there's a graduated royalty in Alberta. Probably Mr. Stringham can speak in much more detail to this than I can. But it is structured, as well, to allow the return to the original investor first, before the higher rates become applicable. Of course, in the current market circumstances, those rates have come to the 25% level very quickly for new operations.

I would add to some of the earlier points that oil prices have come off 18%—

● (1210)

Mr. Rick Dykstra: I realize that you'd like to comment further, Gord, but it's my time to ask questions, and I do want to ask you another one. Obviously the discussion has focused on Alberta today, but I'd like to get your impression, from a mining perspective, especially for the province of Quebec, of the benefits that the accelerated capital cost allowance provide for that province.

Mr. Gordon Peeling: They are significant right across the country for the mining industry. It's historically a recognition of the risk. We're putting a lot of risk capital, upfront, into the development of projects when we are uncertain about the nature of the ore body as we drill it out, its consistency, and our ability to recover materials and concentrate them. It also is a risk with respect to future prices. In the competitive world, for that type of risk capital investment, all governments use some form of incentive—in this case, to level the playing field of risk vis-à-vis other types of investments.

So it is a hugely important issue in all jurisdictions that have mining in this country—Quebec, Ontario, British Columbia, and Saskatchewan.

The Vice-Chair (Mr. Massimo Pacetti): Thank you.

[*Translation*]

Thank you, Mr. Dykstra.

[*English*]

We'll have Ms. Wasylycia-Leis for six minutes.

Ms. Judy Wasylycia-Leis (Winnipeg North, NDP): Thank you, Mr. Chairperson.

Thanks to all of you for your appearance today, especially Mr. Caccia. Thank you for coming. It's nice to see you again.

Let me ask you this, Mr. Caccia, and Andrew. We've had a long-standing policy of eliminating the current accelerated capital cost allowance for the oil sands project. We are hoping that somehow, between this committee and the deliberations on Bill C-30 and the renewed commitment in Parliament to really deal with greenhouse gas emissions, we could maybe achieve something in this budget year. It might be wishful thinking, but we're going to keep trying to the end.

I'm wondering if you have any advice in terms of how we could make this a reality this year for the upcoming budget on March 19. Could you talk about it in terms of cost savings and money that could then be generated for other uses and to meet other commitments? Second, could you talk about it in terms of the urgency with respect to greenhouse gas emissions and the role the oil sands play in that and the whole question of the planet?

Mr. Andrew Van Iterson: I commend your efforts to eliminate the ACCA. I think it would be a really important step forward, and we understand that there are, obviously, strong forces against that.

The recent revenue numbers suggest that the cost of the oil sands ACCA is anywhere from $40 million to $350 million. I think those moneys could be much more efficiently invested in renewable energies, and we know that with renewable energy, essentially, we have power potential that's out there being wasted every day as it flows through the air. The oil sands are a one-time thing. They can be used now, but I suspect that their value will only increase for our children and our children's children in future generations.

The political skills I'll leave to you.

Ms. Judy Wasylycia-Leis: Maybe Mr. Caccia can help me on that one.

Hon. Charles Caccia: It seems to me that it is time to ensure that the Department of Finance is smoked out on issues related to climate change and that it be brought under the public light in a manner that will make it possible and allow for a profound change of the taxation system so that the economy will not be seen in isolation from the environment but that the two will be looked at at the same time.

The current system, as we have it, probably served a purpose up until the first oil crisis in the 1970s, but it has certainly not served us well ever since.

Ms. Judy Wasylycia-Leis: To what extent would the elimination of this present accelerated capital cost allowance on the oil sands slow down the oil sands development? Would it?

I think there is another outcome—I hope—of this that would deal with the very serious problems that are happening in Fort McMurray that we all had a chance to witness when we were there as a finance committee. Would this actually help to it slow down? Would the oil companies actually see this as a disincentive, and would they voluntarily then reduce activity in the oil sands?

● (1215)

Hon. Charles Caccia: Every time there has been a measure or at least the suggestion of changing the taxation system or existing laws in order to broaden them to include the significance of the environment, industry has threatened with unemployment, or with greater risks, or loss of opportunities, or with abysmal consequences. Every time, systematically, industry successfully and effectively uses that threat.

Well, here again we have the same phenomenon this morning. Industry is raising the issue of risk, the issue of unemployment, the issue of losing markets, the issue of an uncertain future. But the demand is rising all the time. The availability of their supply is decreasing. The future looks rosy for industry. There is nothing to be afraid of.

You guys are going to do extremely well, no matter what is done to the tax system. So I don't think there is any reason to be concerned about it.

The fact is, however, that we have an international commitment with Kyoto. We are anxious about 2012. We don't want to be penalized when we reach that year, when we will be fined for the tonnes that we will not be able to deliver. So we have every incentive to move.

One of the major incentives, which so far has been carefully avoided, should be the one of looking at our taxation system and modernizing it.

The Vice-Chair (Mr. Massimo Pacetti): Thank you, Ms. Wasylycia-Leis.

I'm going to give three-minute rounds for the three speakers, because we have only ten minutes left. We have Monsieur Thibault, Monsieur St-Cyr again, and then Monsieur Del Mastro.

Monsieur Thibault.

[*Translation*]

Hon. Robert Thibault (West Nova, Lib.): Thank you, Mr. Chair.

[*English*]

My question is to Dr. Raymont.

I thank you very much. For having no preparation time, you gave an excellent presentation.

The oil and gas industry, particularly the oil sands, have been a great economic generator for Canada. We benefit from it in many ways. But there is the problem of the pace of development. In a sense, I'd like to see it grow, but I'd like to see that period of growth go 200 years rather than have those resources expire in too short a period of time.

It does benefit us across the country, there's no doubt. We hate to see our youth leaving for Alberta, but we're happy that they have a place to work in Canada, and we do sell from all across the country into that market.

The problem, other than this pace of development, is the greenhouse gas emissions and the point that you raised about our commercialization of R and D. I don't know if simply changing the tax structure or making it less efficient for investments in the oil sands solves any problem.

How do we in Canada structure so that we do commercialize our R and D and encourage investment in greenhouse gas emissions or new technologies, or remediation in other areas to compensate for this?

Dr. Michael Raymont: Thank you for the question.

First of all, you mentioned the rate at which extraction of the oil sands may or may not take place. I think it's important to note that the reserves there are sufficient for many, many, many years at any rate, whether a high or low potential estimate of what those extraction rates might be. So we're not worried about that resource—

Hon. Robert Thibault: If I may just clarify quickly, Dr. Raymont, there's also the question of the amount of water resources needed for those extractions, and these other limits.

Dr. Michael Raymont: Absolutely correct.

Several witnesses have talked about reality. The reality is that we absolutely must have the oil from the oil sands. There are no other sources of energy that can come on stream quickly enough to replace them.

The number one priority for this government and for you, as a finance committee, is to figure out a way to triage the environmental impact of the conventional energy sources we already have. Therefore I'm suggesting that if you tinker to some extent with this capital cost allowance, please do so in a way that will encourage innovative technologies to be deployed.

As I've said, encouragements for R and D don't really work. It is capital cost instruments and taxes that in many other countries have been shown to encourage the rapid deployment of innovative technologies in a commercial way.

I'm suggesting that since the oil sands are absolutely needed but pose an environmental challenge for us that we use this tax structure to help the oil sands producers and those who live in that area produce those oil sands with mitigated environmental impacts, which we can do by the deployment of new technology that can be encouraged by tax measures.

● (1220)

The Vice-Chair (Mr. Massimo Pacetti): Thank you.

Merci, Monsieur Thibault.

Monsieur St-Cyr.

[*Translation*]

Mr. Thierry St-Cyr: I'd simply like to react to the last comment that was made.

We've already talked about the need for the oil from the oil sands. Most of that oil is exported to the United States. Canada doesn't really need it for the moment. Furthermore, while we drain our oil reserves to export them to the United States, the Americans are consuming very little of their own oil. They'll probably be the last ones on the planet to have oil. They'll have gotten it everywhere in the world and we won't have any more.

Mr. Dykstra somewhat misrepresented my remarks about economic activity. I don't doubt that a lot of jobs depend on oil, but it's a matter of choice. Are we going to generate economic activity in the oil industry, or in the renewable energy industries?

Renewable energies will make it possible to create jobs and will create tax revenues for governments. That's the same thing; it's merely a choice. Should our fiscal policy encourage development of an industry that, by definition is ephemeral, since oil resources aren't eternal? Should we encourage the development of an extremely polluting economy? Should we instead take the government's same financial and fiscal resources and invest them in clean energies that will really structure our economy and permit longer-term development?

We've talked a lot about accelerated depreciation. In my opinion, we can't seriously continue to encourage the fastest possible development of petroleum energies. Perhaps we should also assess provincial government incentives. Discussions are currently taking place on equalization, to determine whether or not we should include non-renewable natural resources in calculating equalization. Of course, that's not out of the question. It's an encouragement for the provinces to develop this sector of the economy to the detriment of other sectors, such as the renewable energy sector.

Do you think we should include these calculations in equalization?

[*English*]

Mr. Andrew Van Iterson: Technically they should be included. This is a capital base that we can use now or our children can use later. It's an important piece of our country's national assets, and they should be included in the calculations.

Hon. Charles Caccia: Mr. Chairman, what I would suggest to Mr. St-Cyr is to instead include the renewable sources of energy in the calculation of national security. The less dependence we have on non-renewables the better it will be for our national security.

That is why, for instance, the Government of Sweden announced last February that by the year 2020 it will be independent from oil imports. I don't know whether that will ever be possible for Canada, but the less we are dependent on imported oil the greater our national security will be.

The Vice-Chair (Mr. Massimo Pacetti): Thank you. Merci, Monsieur St-Cyr.

Mr. Del Mastro, you have three minutes, please.

Mr. Dean Del Mastro (Peterborough, CPC): Thank you, Mr. Chair.

I'll try to move from platitudes back to reality in my questioning.

Mr. Stringham, is accelerated capital cost allowance the same as a subsidy?

Mr. Greg Stringham: No, I don't believe so. I see a subsidy as being cheques written from the federal or provincial government to people, and it would be giving them economics that are coming from taxpayer dollars. This is a deduction of costs that would be normally deducted; it's just a different timing.

Mr. Dean Del Mastro: Thank you.

Are some of the $27 billion of funds being contributed from the oil sector to the federal government, in your opinion, contributing towards a new green environmental agenda, money that we can invest into green initiatives?

Mr. Greg Stringham: Absolutely. The funds are going in to the government that are being put towards green initiatives. But not only that; it's providing revenues to the companies.

If you look at some of the largest providers of wind power, on the renewable side, they include TransAlta, Enbridge, Suncor, Nexen—companies that are also involved in the oil and gas industry. It's not an either/or. We need both forms of energy.

On tidal power, EnCana, one of the energy companies in the world and the biggest company in Canada, has a very large tidal power project.

When it comes to ethanol, we have Husky and Suncor involved in the ethanol project. So definitely it's going through the government, but it's also direct investments from the energy companies.

● (1225)

Mr. Dean Del Mastro: Thank you, sir.

Mr. Romanow, you mentioned you were making a $4.6 billion investment into the oil sands. We as a committee had an opportunity to tour the Albian Sands facility, a facility that is quite modern, that recycles water. In fact, it maintains heat, so it doesn't use as much natural gas and has much lower emissions.

This type of move that's being pondered, to put an end to the accelerated capital cost allowance, would seem contradictory to trying to improve the overall emissions of the oil sands. If we want to improve the efficiency of the oil sands, it seems that we should be encouraging investment into new technology, which is what the ACCA does.

Would you concur with that statement?

Mr. Marvin Romanow: What I would add to it is that the way you create environments for people to make these investments is by creating a vibrant and healthy industry. If you do that, people will make the investments in conservation. That is the number one mechanism to reduce carbon emissions into the environment.

What I tried to frame was that we have an awful lot of this resource. At current production rates, we have 500 to 1,000 years of resources there. We are not at all at risk in over-developing this at the expense of future generations. This asset is needed for the world today and it should be developed today, and we have the skills in Canada to do it.

The Vice-Chair (Mr. Massimo Pacetti): Thank you, Mr. Romanow.

Thank you, Mr. Del Mastro.

Here's a quick question, Mr. Stringham, based on the example you have in your slide, that the accelerated capital cost is going to be over a twenty-year period. It can run anywhere, actually, from a seven-year to a twenty-year period. Then I think you stated it again when somebody asked you a question.

Does this mean it wouldn't bother you if we changed the accelerated capital cost allowance, because it wouldn't make a difference in your business?

Mr. Greg Stringham: Oh, it would definitely make a difference in the business. He asked me whether it was a subsidy. It's the same cost that's being deducted, but to have it deducted—

The Vice-Chair (Mr. Massimo Pacetti): It's in one of your slides, and one of the members asked you a previous question, to which you said that the accelerated capital cost is only utilized over a seven- to twenty-year period. You gave the twenty-year period, and up to a twenty-year period you're only matching the accelerated capital cost when revenues come in, depending on the project. So you don't obviously utilize all that accelerated capital cost in the first year.

Mr. Greg Stringham: That is correct. But what that does is level the playing field for all the mining industry, because if you have sufficient revenues within your company—

The Vice-Chair (Mr. Massimo Pacetti): I understand the mechanics. Because time is limited here, I'm just wondering: then you wouldn't necessarily have a problem if we changed the accelerated capital cost to “useful life”.

Mr. Greg Stringham: Oh, absolutely. That would change the risk profile associated with all these projects, for sure.

The Vice-Chair (Mr. Massimo Pacetti): Is that the case even though, according to one of your slides, it would take, let's say, from a seven-year up to a twenty-year period to write off some of your assets?

Mr. Greg Stringham: That's correct, because the recovery of that capital affects the financing, in particular for small Canadian companies.

The Vice-Chair (Mr. Massimo Pacetti): Mr. Van Iterson, in your presentation, you stated that we should be moving to a green economy. How do we do that? We heard that it takes five to six years to set up a mine, so how do we move overnight? We can't just move to a green economy overnight, so how do we do it so that there's the least amount of pain possible for the economy?

Mr. Andrew Van Iterson: I'm not suggesting that we can do it overnight, but we need to start launching a long-term plan to do it. Mr. Caccia touched on one of the important elements. We need to harmonize our tax system and our fiscal policy with long-term environmental sustainability. We should move to a point where our market prices incorporate full environmental costs and health costs. For example, when we drive a car, we hurt the health of people around us, but we don't pay that cost. Our friends incorporate that cost.

The Vice-Chair (Mr. Massimo Pacetti): This is the last question.

Also in your presentation, you were saying the operating costs were as high as 64% in 1995 when you compared it to a barrel of oil. You say it now represents 44% in 2006. Is there a number we should be using, or should we just say that it doesn't matter what the cost of oil is going to be?

Mr. Andrew Van Iterson: Could you repeat that?

The Vice-Chair (Mr. Massimo Pacetti): In your presentation, you have the operating costs in 1995 at 64% when compared to the sale price of a barrel of oil. In 2006, they represent 44%. Does that really matter? Do we need to set a rate? Do we say a tax incentive, tax subsidy, tax policy, or call it what you want, should be based on the selling price of a barrel of oil, or should we just do away with it? I know you're going to say to just do away with it, but should there be a price point there?

● (1230)

Mr. Andrew Van Iterson: I would say the investments should be justified on their economic basis alone, but the industry is saying there are risk issues and capital investment issues. If their relative cost has dropped by 30%, then I think that substantially reduces the justification for the incentive, subsidy, or whatever they want to call it.

The Vice-Chair (Mr. Massimo Pacetti): This is a complex issue.

Thank you very much to the witnesses for taking time out of your day.

Thank you to the people out in Calgary. It worked out well and we hope we have this success on the next panel.

If we can break for five minutes, we're going to start again when I get back. We want to end the second panel ten minutes before time expires, to discuss what we're going to be doing and if we have to write a report or not.

Thank you.

The meeting is suspended.

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(Pause)

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• (1240)

The Vice-Chair (Mr. Massimo Pacetti): Good afternoon.

[*Translation*]

Pursuant to Standing Order 108(2), the committee is conducting a study on taxation of the oil sands industry.

I'm going to allow the witnesses five minutes, if possible.

[*English*]

For the people from Calgary with whom we're video-conferencing, we have good sound and video, so I don't think there should be a problem.

If we can start with Mr. Wilkins, from the Sierra Legal Defence Fund, you have five minutes, please.

Mr. Hugh Wilkins (Staff Lawyer, Toronto Legal Team, Sierra Legal Defence Fund - Toronto): Thank you very much, Mr. Chair.

Ladies and gentlemen, thank you very much for having me here today. The main message of my presentation focuses on accountability—accountability to present and future Canadians, as well as to the international community.

We have heard strong pronouncements from government about taking action on climate change, but when we get to the real indicator of action, the finances, we see a system of subsidization and tax breaks that does not match the rhetoric. The Canadian development expense program, the Canadian exploration expense program, and the accelerated capital cost allowance bring together a system of subsidization that is not only unnecessary, given the profitability and growth of the oil sector, but one that is also irresponsible, in that the programs are counterproductive to the goal of reducing greenhouse gas emissions. It is time that words be matched with action. It is time for accountability.

Because many environmental goods and services, such as carbon sequestration through the maintenance of our forests, are not generally valued or traded in Canadian markets, we fail to provide appropriate signals that might otherwise contribute to efficient allocation and sustainable resource use. The 2001 Nobel Prize in Economics winner Joseph Stiglitz emphasizes that these services must be accounted for through mechanisms such as carbon emissions trading so that these environmental services are recognized by the market, and so that the maintenance of ecosystem integrity and the benefits generated therefrom can be rewarded. Without such mechanisms, even if they are aware of the services provided by ecosystems, they're neither compensated for providing these services, nor penalized for reducing them.

The OECD defines “subsidy” as “any measure that keeps prices for energy consumers below market levels or for energy producers above market levels, or that reduces costs for consumers or producers”. The International Energy Agency defines “energy subsidies” as “any government action that concerns primarily the energy sector that lowers the cost of energy production, raises the price received by energy producers or lowers the price paid by energy consumers”.

Economic and financial interventions are powerful means to regulate the use of environmental goods and services. In their worst form, subsidies can substantially increase rates of resource consumption and increase negative externalities.

In its recommendations to lessen the severity of these problems, the UN millennium ecosystem assessment stressed the need for the elimination of perverse subsidies that promote excessive use of environmental services and the reallocation of these subsidies to payments for non-marketed environmental services. These sorts of recommendations are not new. In 2004, the OECD called on Canada to systematically review its environmentally harmful subsidies in sectors such as energy, and to phase out environmentally harmful subsidies, including subsidies in the form of tax incentives for the resource-based economic sectors. Moreover, under the Kyoto Protocol, Canada committed itself to implementing measures for the progressive reduction or phasing out of subsidies in all greenhouse-gas-emitting sectors.

Today, the federal government is unfortunately going in the opposite direction, through its subsidies to the oil industry. Not only do these actions not account for the value of the environmental goods and services lost due to the destruction of the boreal forests above the tar sands, they provide dramatic incentives for the acceleration of greenhouse gas emissions through high-emissions-intensity tar sands oil extraction and through consumption of the oil produced from these activities. Instead of accounting for environmental goods and services, we are rewarding their neglect.

In his recent report for the U.K. Treasury, former World Bank chief economist Nicholas Stern addressed the issue of the cost of increasing greenhouse gas emissions and the issue of energy subsidies. He emphasized that these subsidies “are a source of economic distortion and loss” providing “a strong historical bias toward the more polluting fuels.”

Investors, operators, and consumers in a liberalized energy market should face the full cost of their decisions, but this is not the case in the Canadian energy sector. Federal subsidies distort the market in favour of existing fossil fuel technologies despite the greenhouse gas and other negative externalities that they create. As noted by Stern, these subsidies compound failures to internalize the environmental externality of greenhouse gases and affect the incentive to innovate by reducing the expectation of innovators that their products will be able to compete with existing choices. They also detract investment from more sustainable energy supplies and conservation initiatives.

● (1245)

Canada has signed and ratified the Kyoto Protocol, committing this country to reduce its greenhouse gas emissions by 6% below 1990 levels by 2008 to 2012. However, ladies and gentlemen, as you well know, our emissions have increased dramatically since that time, and we need to take more effective action.

Since 1997, when the Kyoto Protocol was created, the federal government has spent more than two dollars in tax subsidies to oil companies for every one dollar spent on meeting its Kyoto targets. Canadian oil and gas companies have been making billions of dollars in record profits over the past several years, yet these companies annually collect about $1.4 billion in government subsidies.

The Vice-Chair (Mr. Massimo Pacetti): Can you wrap up, please?

Mr. Hugh Wilkins: It is time for accountability, sustainability, and responsibility in tax policy relating to the tar sands. We need to substantially reduce the incentives provided to oil companies, especially as regards the development of the tar sands, replace these with measures that take into account the value of environmental goods and services, and focus on renewable energy supplies.

Thank you very much.

The Vice-Chair (Mr. Massimo Pacetti): Thank you.

From Club Sierra du Canada, we have Monsieur Langlois.

[*Translation*]

Mr. Jean Langlois (National Campaigns Director, Sierra Club of Canada): Thank you, Mr. Chair.

[*English*]

Good afternoon, everyone.

[*Translation*]

I'm going to start by emphasizing that we're making two recommendations today and that they are related to each other.

First, we are recommending advancing a sustainable energy future for Canada by implementing a capital cost allowance for the oil sands industry that is consistent with conventional oil and natural gas, that is 25 percent, rather than 100 percent. We talked a lot about this this morning.

Second, since that gives us some fiscal flexibility, we recommend that this retained benefit be reinvested to accelerate growth in the renewable energy and energy efficiency sectors rather than simply being absorbed.

The Green Budget Coalition proposes specific measures for doing this.

[*English*]

We also heard this morning a vision for Canada that saw our economy being almost exclusively dependent on fossil fuels for the next 100 years. I would posit that it's not the role of the Parliament of Canada to sit back and be told what Canada will look like in 100 years.

In fact, that's not what other governments have done. That's not what other signatories to the Kyoto Protocol have done. I'll refer committee members to the Sierra Club report on Kyoto that was issued a couple of weeks ago, in which we outlined the steps taken by the U.K., Denmark, Sweden, and several other countries that are kicking their petroleum habit and are meeting and exceeding their Kyoto targets.

This remains the goal of Canadians and one that I think can be achieved if our fiscal policy, as we've heard over and over today, matches the goals of Canadian society.

I'll leave my comments at that. Thank you.

● (1250)

The Vice-Chair (Mr. Massimo Pacetti): Thank you.

From the Canadian Imperial Bank of Commerce, we have Mr. Plexman.

Mr. Robert Plexman (Managing Director and Senior Oil and Gas Analyst, Canadian Imperial Bank of Commerce): My name is Robert Plexman, and I'm the senior oil and gas analyst and managing director at CIBC World Markets. I've worked at CIBC for the last 11 years, and I've worked as a petroleum analyst for over 30 years.

My responsibilities as an oil and gas analyst are to determine the fair stock market value of the shares of the larger Canadian oil and gas companies. As far as accountability goes, everyone is accountable to somebody. I'm accountable to CIBC World Markets' institutional and retail investing clients.

I want to thank you for your invitation here today.

My understanding is that the purpose of today's meeting is to review the issue of tax incentives, specifically the accelerated capital cost allowance. How I can help today to make a contribution is to provide a capital markets perspective, as you haven't had someone talk about the capital markets yet, and to deal with this issue of whether the industry needs this incentive or not.

Before I get into the details, let me take 30 seconds to tell you how I do my job, just so that you have a clear understanding. My analysis is based on current trends as well as on my expectations for the future. All the conclusions are based on publicly disclosed information. I don't know what the accelerated capital cost allowance balances are for these companies, or their CEE or their CDE. We are looking at the industry from a bit of a distance, but we normally come pretty close to the mark.

Please don't ask me about ABM fees or interest rates on VISA, because I'm in the investment side of the bank, not the commercial side.

As far as the issue goes, yes, tax incentives are controversial, but I think the most important factors affecting the pace of the Canadian oil sands development are the following. First is the oil price and the oil price outlook. Oil prices drive everything else. Costs, of course, are an important consideration, and I will return to that, and expected returns. I hear a lot of people talking about how much money this industry makes, but it's just like when you go home at night: the money is one thing; it comes in and it goes out, and you try to get a return on your investment. The return is key. This is a big industry with big volumes and big dollars. That is an important part to remember.

In my own work in looking at oil prices, if we start with the oil price, I'm assuming that the west Texas oil price—which is the benchmark for North America—averages U.S. $60 per barrel going forward. In other words, the world tomorrow is going to look like the world today, and we adjust it for inflation going out.

Just for your information, though, over the past 12 months that oil price has been as high as U.S. $77 a barrel, and last month we saw it pushing U.S. $50, so it's a pretty wild ride here. And these oil operations, if you go to the oil sands, they're trying to do their planning around these parameters, so they are looking for stability. We can get into more discussion about the thinking behind the price outlook, but the important point that you take away here is that oil is a highly volatile commodity in more than one way.

As far as valuing the sector, my preferred metric is to calculate the internal rate of return of these projects. In this way we combine these factors. We start off with what we think oil prices are going to be. We make projections about what we think the costs are going to be, and then recognizing that all this happens in the future, we adjust for the time value of money. What we've provided for you today is a summary of a 96-page report we put out last month on the oil sands, which I think is a factor in why I got invited here today. I appreciate that. The point is that when we add up the numbers in today's environment, we think that if we're going to start out to build a new oil sands plant, we'd probably get about a 13% return on investment. That's the internal rate of return. That's not bad. It's not spectacular. It used to be higher.

A couple of years ago, when we were calculating these numbers, when we were using the high oil price forecast and not factoring in the rising cost, the numbers were in the mid-teens to the high teens. But oil is like any other commodity: when prices rise, costs do too. This is what's happening now. That is a very important point to keep in mind.

If we were to use a $45 oil price, we'd be crazy to start up one of these plants. That is the minimum. We calculate about a 10% internal rate of return, the financial term over the cost of capital. That's when these projects start to make sense.

● (1255)

Basically, if I'm going to do one of these things, I'd have to be pretty confident that oil is going to average $50 a barrel. That's when I'd start. At $60 a barrel, I'd get a 13% return. Is that worth the time and aggravation? Maybe. However, the idea of this industry making windfall gains might have been the case a couple of years ago, but my numbers don't show that at all.

I should also say that these estimates are about as precise as I can get them. We're taking them to two decimal places, but we're starting with assumptions and trying to be realistic.

Let me make one last point. One of the unintended effects of changing the accelerated capital cost allowance may be that it has a more negative effect on the Canadian companies. When you look at this industry, you have big players, big names. Every big oil company wants to be in this business. The Exxons and the others are much bigger and much stronger financially, operationally, and technically. They have different time perspectives. The Canadian companies are competing. We have a great Canadian presence and a number of the smaller companies are involved in this. There is a risk, from my point of view, that you could see these Canadian companies put at a disadvantage as this resource is developed, and I don't think that's the intention here.

I'll end with that, as I've probably used up my time.

The Vice-Chair (Mr. Massimo Pacetti): Thank you, Mr. Plexman.

From the video-conferencing in Calgary we have the Pembina Institute.

I understand, Mr. Raynolds, you're going to speak.

Mr. Marlo Raynolds (Executive Director, Pembina Institute): That's correct.

● (1300)

The Vice-Chair (Mr. Massimo Pacetti): Go ahead, for five minutes, please.

Mr. Marlo Raynolds: Thank you.

Good afternoon, ladies and gentlemen. Thank you for allowing us to appear before you today.

My name is Marlo Raynolds, and I am the executive director of the Pembina Institute. I am joined by Dan Woynillowicz, a senior policy analyst and an expert on the oil sands. Normally our senior economist, Amy Taylor, would be here today, but unfortunately she is out of the country. It takes two of us to replace our one senior economist. She did submit a written submission to the committee, and I hope you all have copies of that.

As many of you know, the Pembina Institute is a non-profit organization, often described as a think tank, focused on energy and environment issues. We are a national organization with just over 55 staff across six offices. We grew up in Alberta, and we consider ourselves to be still very much Alberta-based.

Today the focus of our discussion is the tax treatment of the oil sands and specifically, the accelerated capital cost allowance. We respectfully recommend to the committee that the Department of Finance eliminate the 100% accelerated capital cost allowance for the oil sands and return the rate to the standard 25%. We believe that the 100% ACCA for oil sands is an irresponsible use of the taxpayers' money.

The oil sands sector is mature by all measures: by the presence of all major multinational oil companies; by its international recognition; by the scale of capital investment, which was over $40 billion over the past 10 years; by the scale of approved projects and associated capital in the order of $40 billion to $60 billion over the next decade; by today's production of 1.2 million barrels per day, a target that was set for the year 2020 but achieved in the year 2004; by the fact that approved projects today will take us beyond two million barrels per day; and by the fact that all the companies with high stakes in the oil sands are among the most profitable companies in Canada. For all these reasons, it is very clear that the oil sands sector is a mature industry.

There is a clear establishment of the industry and there are strong drivers for continued growth, including continued demand for oil from our neighbours to the south and from our Asian partners. We have the second largest proven oil reserves in the world, second only to Saudi Arabia. We are the single largest oil reserve in a democratic country, and we have highly skilled workers who want to live in our country because it is a modern and safe country. For all these reasons, it's very clear that we have very strong investment opportunities in Canada in the oil sands sector.

In a market-based economy, there will be winners and losers. Given all these favourable market conditions, there will surely continue to be investors who will win. In other words, access to capital and investments in the oil sands will continue to be strong.

Canadians should be equally if not more concerned about developing this resource too fast, without adequate protection of the environment. The oil sands are not only the fastest growing industry in Canada, but are also the fastest growing source of greenhouse gas pollution in Canada. Any subsidy to the oil sands is really a subsidy to the production of pollution.

The 100% ACCA for oil sands, when established, was severely flawed in its original design. Any targeted subsidy to a particular sector should have a sunset clause. It should end when economic conditions have evolved to the point where the industry has matured. Because such a sunset clause was not included, the committee is now having to investigate the matter to ensure that taxpayers are getting value for their investment.

In 1995, the cost of production of the oil sands represented 64% of the value of a barrel of oil. In 2006, only 44% of the value of a barrel of oil was spent on production. Given the profits of oil sands companies—in the order of $2.6 billion in 2006 for Imperial Oil; $2 billion for Shell Canada—these companies no longer need the help of the taxpayer. Clearly, profits are good. It is why individuals invest. You and I no longer need to add to those profits with our tax dollars, especially since a growing number of shareholders are not Canadian. In other words, Canadian taxpayers are subsidizing profits for shareholders outside of Canada.

It is therefore our recommendation that in the interest of the responsible use of taxpayer dollars, we eliminate the 100% ACCA for oil sands and invest those dollars in 21st-century energy sources, such as low impact, renewable energy.

Thank you very much.

The Vice-Chair (Mr. Massimo Pacetti): Thank you, Mr. Raynolds.

We have, from TD Securities Inc., Mr. Roberts.

If you can keep it to five minutes, I'd appreciate it. Go ahead.

Mr. Bill Roberts (Vice-President, Investment Banking, TD Securities Inc.): Thank you, Mr. Chairman, and good afternoon, honourable members of the committee and fellow speakers.

I'm pleased to be here today to discuss the current economic environment surrounding Canada's oil sands industry and some of the trends that are expected to impact its future development.

With recently high oil prices of $60 U.S. per barrel and above, and given the level of activity in the oil sands sector, one would think that the economics for oil sands projects are strong. However, I can tell you that the returns the project sponsors are seeing today are not materially different from those they saw seven years ago when oil was trading at $20 U.S. per barrel.

First, I work with TD Securities, which is the most active investment dealer in the oil sands. TD has led approximately $8 billion of debt and equity financings for new oil sands projects over the last seven years, is a top trader of oil sands stocks in general, is a leader on providing research on the sector, and has advised on over 25 oil sands financial advisory assignments over the past two years.

Canada's oil sands have recently taken on more significance as a result of security-of-supply concerns, low geological risk, and a growing scarcity of new oil resources worldwide. Given Canada's diminishing conventional oil production, the oil sands are expected to become an increasingly large percentage of Canada's overall oil production. Despite this increased significance and resulting rapid pace of development, the oil sands sector has recently been showing signs of slowing, including delays in announced development plans, with the start-up of a number of projects being pushed back one or more years, weakening equity capital in M and A markets, and asset transaction prices that have declined from the pace of a year ago.

This slowdown has been the result of a number of factors, including: increasingly overheated construction and labour markets; higher capital and operating costs; higher natural gas costs; reduced diluent supply, which is used for blending with bitumen from oil sands for transportation; concerns over water access; concerns over the potential costs of complying with a future carbon dioxide emissions system; concerns over our changing fiscal regime, both in terms of royalties and taxes; and a higher Canadian dollar.

These challenges to the development of the oil sands have resulted in increased risks of significantly lower returns. Assuming long-term oil prices in the $40 U.S. per barrel range would render many of them uneconomic, and that sort of number is what a number of companies will use in their long-term planning.

Although no new projects have yet been terminated, continued pressures resulting from these factors will most likely yield that result. At the very least, a number if not the majority of announced projects or expansions will not proceed according to their currently disclosed time frames.

Oil prices have been a significant catalyst to the growth in the oil sands; however, they have weakened over the last 12 months, and industry cannot rely on continued increases in commodity prices to justify billions of dollars of investment in the sector.

Furthermore, the gap between light and heavy oil prices has widened significantly over the past three to four years, and therefore the price the oil sands producers receive for their bitumen production has not kept up with increases in global oil prices. While the future growth of oil sands production may provide assurances of a secure source of long-term supply for Canada, that production may also further depress heavy oil prices as the market adjusts to the significant increase. Oil sands producers will also have to bear this risk.

Along with increasing prices, capital costs have increased dramatically, with the last three major projects completed experiencing cost overruns of their initial budgets of 60%-plus.

Among oil sands projects with abilities to upgrade bitumen to synthetic crude oil that were completed between 2001 to 2004, capital costs averaged approximately $33,000 per daily flowing barrel of synthetic crude oil production. The average announced capital costs for similar projects that have been recently built or are currently under development has increased 125% from that level, to $74,000 per daily flowing barrel of synthetic crude oil production.

The cost increases for some projects have been well above that level. For instance, the industry's latest project to start development, Shell's Athabasca oil sands project, announced capital costs on its next expansion phase, expected to be producing by 2010, of over three times the cost per barrel of daily production in its first phase, which was completed in early 2003.

In situ projects that used to cost $10,000 per barrel of bitumen production now cost $25,000 to $30,000 per barrel of bitumen production. Project returns of 10% are now difficult to come by, and with the continued increase in costs, they're becoming harder still. Capital cost pressures have become particularly damaging for oil sands projects in the past, with projects such as Fort Hills and Petro-Canada's Edmonton refinery conversion being mothballed three to four years ago, primarily as a result of higher capital costs.

● (1305)

Likewise, operating costs have also increased dramatically over the last several years. Suncor, for instance, announced cash operating costs in 2006 of approximately $22 per barrel, which is approximately 80% higher than its operating cost of about $12 per barrel in 2004.

Based on the various oil sands projects that have been announced, the Construction Owners Association of Alberta has estimated that the number of construction craft personnel among industrial construction projects over $100 million is expected to increase from 16,000 people currently to 36,000 people in 2010. This is expected to result in continued pressure on operating costs.

In conclusion, while several factors have encouraged the development of Canada's oil sands, after many years of largely remaining dormant, significant cost increases and other industry pressures are already threatening the survival of a number of these projects. Through TD Securities' capacity as a financial advisor to a number of these companies, we are seeing these pressures continue to mount, and they will ultimately result in only some of these projects getting built. We are seeing huge warning signs in the industry—not necessarily public—that convince us that the pace of development is going to be much slower than currently anticipated. The continuation of existing federal tax and provincial royalty regimes, which have been key to encouraging development of Canada's oil sands in the face of much longer project lead times and much higher capital costs, typically, than conventional oil projects face, may therefore continue to be very significant to assuring the industry that a stable fiscal system exists in Canada and that it is worth bearing the risks of these increased economic pressures.

The Vice-Chair (Mr. Massimo Pacetti): Thank you, Mr. Roberts. You're way over on your time, and I thought you were going to conclude.

We are ahead on time, so I want to ask a quick question and just a yes or no answer would be helpful.

If a barrel of oil is at $80—I think I understood $60 is what Mr. Plexman and Mr. Roberts were saying, but let's say it's at $80—do we keep the accelerated write-off?

I'll ask Mr. Wilkins, yes or no?

Mr. Hugh Wilkins: I think it's more advisable to invest our money—

The Vice-Chair (Mr. Massimo Pacetti): Thank you.

Mr. Plexman, yes or no?

Mr. Robert Plexman: Yes.

The Vice-Chair (Mr. Massimo Pacetti): Mr. Langlois.

Mr. Jean Langlois: No.

The Vice-Chair (Mr. Massimo Pacetti): From Calgary, Mr. Raynolds.

Mr. Marlo Raynolds: No.

The Vice-Chair (Mr. Massimo Pacetti): Mr. Roberts.

Mr. Bill Roberts: Yes.

The Vice-Chair (Mr. Massimo Pacetti): Okay, and if that was down to $40 a barrel...?

Mr. Wilkins, yes or no?

Mr. Hugh Wilkins: No.

Mr. Robert Plexman: Yes.

Mr. Jean Langlois: No.

Mr. Marlo Raynolds: No.

Mr. Bill Roberts: Yes.

The Vice-Chair (Mr. Massimo Pacetti): Thank you. That hasn't solved anything.

Mr. McKay, six minutes.

An hon. member: I think the answer is “on division”.

Hon. John McKay: I think you could have applied that second vote.

Mr. Plexman, as you know, what's really behind this whole thing is a sneaking suspicion on the part of some Canadians that the oil sands are making like bandits and making an enormous amount of money and really we should get more of it. It's not too much more subtle than that.

I want you to turn to page 10 of your presentation, “Oil Sands Economics”, “Canadian Oil Sands 2007 Guidance For Syncrude”. I want you to help me read this, because it seems pretty impressive.

The revenues of the oil sands—this particular project, I take it—were $2.3 billion. Interestingly, they had purchased energy costs of a little over 10% of their gross revenues—an interesting statistic. Their production costs were about 44% and their gross margin was 56%—pretty healthy. Then they take off their non-production costs, and it includes some royalties and cash taxes and “other”—I'm not quite sure what that means—and that brings them down to total costs of 63%, a cash margin of 37%, which is $881 million. Then you have something called Capex—I don't really understand what that is—so you have a pre-cashflow of $621 million, or 26% of your revenues.

Am I reading this correctly to say that they only have used up 39 million to 44 million barrels on a mid-point production of 40 billion barrels? Am I reading that correctly?

Anyway, your final comment is “COS's expected 2007 cash-on-cash return is 239%...”—that kind of catches your attention—“which we think should rank near the top when compared to conventional oil projects.” It seems to me that on page 10 you've captured the heart of the argument here, and that is, that looks like a pretty fine return. Do I have your presentation correctly, as a general concept? If so, can you give me some explanation as to how, even if we killed the accelerated capital cost allowance today, that would impact on that financial statement?

● (1310)

Mr. Robert Plexman: That's a great question. I'm glad you asked me that one, because the thing about the Canadian oil sands is they have a 37% interest in the Syncrude oil sands project. I don't know if you had the chance to visit that one, but that's the second oldest. It has been in business for about 30 years, has a lot of history, and is very profitable. If you look at the bottom here, you have the existing oil sands operations, which are ranked at the top of our list in terms of returns, so that makes them highly desirable investments. Everyone wants to be in this business.

Does the accelerated capital cost allowance impact this return? Well, probably not at this point, because Syncrude is paying taxes. Did it help them get to this level? Yes, probably during their evolution it did.

What makes these numbers work—this is what you have to understand about oil sands—is that they take that raw bitumen and convert it, in the case of Syncrude, into a barrel of high-quality light oil. That's the upgrading process. They add a lot of value to that barrel. They mine it and upgrade it; and as well, what you're looking at with oil sands is large reserves. I forget the exact number of reserves at Syncrude, but when you depreciate those reserves over their life, you get a low investment cost. So if you put the fact that they maximize the value, maximize the revenue, and put that against the cost, which is spread over millions of barrels, the economics look great.

This is mainly historical, and this is the whole key to the oil sands. You have to separate the accounting from the economics of it. For those companies that are in business, this is why they want to be in oil sands. What we're talking about here with the accelerated capital cost allowance are the projects that are to be built. Syncrude and Suncor, to a certain extent, are benefiting from history, because they've been in this business a long time. They have established their resource base over a long time. It's tough to compare these numbers to a new project.

Hon. John McKay: But a 239% return, cash on cash.... First of all, explain “cash on cash” to me, because that seems like even better than profit.

● (1315)

Mr. Robert Plexman: It's pre-tax.

Hon. John McKay: Okay, pre-tax.

Mr. Robert Plexman: Yes, that's an important qualification here.

What we're looking at here is basically the cash generated from producing a barrel of oil at Syncrude, minus the investment cost for that barrel, divided by the investment cost. It's like a return on that investment before tax. So we still have to take off taxes.

Hon. John McKay: I can't fathom any other industry in this country that gets that kind of return on its investment. So if I had $1,000 in this project, I could expect a 239% return on my $1,000 cash. Is that correct?

Mr. Robert Plexman: It's interesting if you look at *The Globe and Mail* this morning, because a question always comes up. Read the article. Astral Media is buying Standard Broadcasting, and if you look at their margins, they're higher, I believe.

The Vice-Chair (Mr. Massimo Pacetti): Thank you, Mr. McKay.

On that note, Monsieur St-Cyr, *vous avez six minutes, s'il vous plaît*.

[*Translation*]

Mr. Thierry St-Cyr: Thank you, Mr. Chair.

I find the discussion very interesting. I enjoyed Mr. Raynolds' presentation. I also had the chance to talk with Ms. Taylor, who could not be here today, but who is doing a very good job.

Mr. Raynolds, you have done a very good job as well. It's interesting to show that there are significant economic aspects behind the question we're addressing today.

I find it somewhat paradoxical that it is the Conservatives, those free market supporters, who are fighting to preserve a tax benefit for the oil companies. That's all the more strange since, in cases such as those of Boeing, older workers, the bicycle industry, textiles and I don't know what else, when we ask them to intervene, they always respond that, if you let the market operate, it will adjust to demand. However, when it comes to the oil industry, that's something else: the oil companies obviously need government assistance in order to develop.

As a progressive, I'm not opposed to the government intervening in the economy, but it should do so in areas that we want to develop, that is to say industries that benefit society.

Earlier we talked about costs, but we didn't talk about environmental costs, costs that society would have to bear for all this development of the oil companies. Analysts have told us about the benefits to be derived, more so or less so depending on the positions the government would adopt, but no one has ever considered the amount of money that society would have to pay for all that.

Apart from any economic consideration, is the question submitted to us simply a question of choice? A business could very well be engaged in a completely pointless activity, such as destroying mountains, then rebuilding them.

Mr. Pierre Paquette (Joliette, BQ): Which is typically Canadian.

Mr. Thierry St-Cyr: If we encouraged that business, that would develop an economy: the company would employ people, and so on. However, it would serve no purpose. Would we like to encourage that? Of course not. Why do we want to do so in the case of the oil industry?

Can someone here tell me why the oil industry should benefit from accelerated depreciation at a rate of 100 percent rather than 25 percent, when no other industry enjoys that? Can one of the witnesses explain to us why Canadians should allocate a portion of their taxes to granting a tax benefit to an industry that pollutes a great deal, which, by its nature, is necessarily ephemeral and which is not as structuring as a host of industries that we should be developing?

Mr. Pierre Paquette: We need a volunteer.

Mr. Thierry St-Cyr: Someone should be able to explain that to me. Otherwise, I don't see why we should continue investing in this area.

[*English*]

Mr. Robert Plexman: I'm sure Mr. Roberts in Calgary will want to say something too.

On the point about useless activity and pointless activity, I don't think those people who are trying to get to work in Toronto today and who can't buy gasoline will consider this industry to be pointless or useless. That's sort of tongue in cheek, but that's what it comes down to. This is a resource.

I was born in Iran, so I grew up with some familiarity with mining. For me, Canada's mining is about resources, oil and gas. That's why I don't analyze bank stocks; I analyze oil and gas.

Is this important? Is it vital? The oil companies have access to 15% of the world's reserves. If you take OPEC, that's 75%; Russia is another 10% of the world's reserves; and that means there's 15% left over to find the oil that we need so people can get to work. And some of them can't get to work in Ontario today.

We never run out of oil. You made the point earlier about whether we are squandering this resource. We never run out. However, it costs more. And this is why I answered the question about $80 oil. If oil prices go up to $80, you can be sure the operating costs to build one of these things, the capital costs, go up as well.

● (1320)

[*Translation*]

Mr. Thierry St-Cyr: My question isn't changing. Why would we use tax money to fund faster oil sands development, export our oil to the United States more quickly and thus exhaust our resources more quickly? What's the point, when, to develop our economy and reduce our dependence on oil, we could invest that same money in a host of industries that are much more in need of tax incentives?

Why spend money in that way? I think I know the answer. It's because a lot of financial interests are at stake and because people don't want to lose the privileges. Why should we, as a society, help the oil industry rather than the renewable energy, bicycle, textile or aeronautics industries? Why should we as a society make such an irrational choice?

[*English*]

Mr. Robert Plexman: Okay—

The Vice-Chair (Mr. Massimo Pacetti): Mr. Plexman, if you can answer that in 30 seconds or less, I'd appreciate it. The time is up.

Mr. Robert Plexman: In 30 seconds? The question was five minutes.

The Vice-Chair (Mr. Massimo Pacetti): That's the name of the game.

Mr. Robert Plexman: I can talk about it as an oil and gas analyst. Let me talk about it just in terms of energy security.

You're probably going to pay the same price for oil, which is a global commodity, whether it comes from Fort McMurray, Angola, Iraq, or Iran. Do you want to be dependent on Iran or Fort McMurray?

We have the Americans up here and we have the Chinese over here, because they've figured out that we have this fantastic resource that no one else has. It's an advantage. We have to be very wise about how it's developed, recognizing all the interests. But unless we all plan to walk home tonight, oil is essential to what we do here, from my perspective, anyway.

The Vice-Chair (Mr. Massimo Pacetti): Okay, thank you.

[*Translation*]

Thank you, Mr. St-Cyr.

[*English*]

Ms. Ablonczy, you have six minutes, please.

Ms. Diane Ablonczy (Calgary—Nose Hill, CPC): Thank you, Mr. Chairman.

Thank you, everyone, for your presentations. We appreciate that very much.

I'd like to start with Mr. Raynolds. You are an investment banker. You advise clients on whether to invest in mining projects, such as the oil sands. We're somewhat confused here. We have heard that the rate of return on these investments is 7% to 10%, and no more than 13% or 14%, and yet Mr. McKay brought up something about it being over 200%. Can you enlighten Canadians as to the rate of return on these oil sands investments, please?

Mr. Bill Roberts: This is Bill Roberts speaking.

I guess, from our perspective, the rate of return is going to be very much dependent on the commodity price assumptions used, as these projects typically run for many years. That's really key to coming up with a conclusion on what sort of rate of return these projects are earning.

What we've seen—and further to this escalation in costs and this theme that keeps coming up—is that as far as the oil sands have been concerned, that has eroded, to a significant degree, those returns earned by projects. If you're looking at $45 crude, which, again, is a typical price that a lot of major oil companies will use for planning purposes because they can't rely on $60 or $100 oil to remain for the next 40 years while their projects operate, then you're seeing returns that are in the high single digits. If you compare that against returns that would have existed a number of years ago, when costs were significantly lower, those two sort of roughly equate, as far as returns go.

● (1325)

Ms. Diane Ablonczy: Thank you for that.

I want to talk about this idea of the oil sands projects getting a subsidy, or mining projects getting a subsidy, through the capital cost allowance. I had understood that for capital-intensive projects, where you have to invest an awful lot to build a project before you get any profit out of it, the capital cost allowance simply allows you to write off those upfront costs, which allows you to actually make the project work. But those costs are recovered by government down the road.

Is that not correct? Or is this an outright subsidy?

Mr. Marlo Raynolds: No, I believe that is correct.

Again, there are billions and billions of dollars at stake being put up by private enterprise without seeing any form of return from these projects for a number of years, as there is the time delay between capital investment and cashflow from these projects. In encouraging companies to take on that risk, the ACCA has been, we think, instrumental in indicating government support for these private companies extending those significant capital investments.

I don't know if that answers your question.

Ms. Diane Ablonczy: With Canada moving toward a green agenda that will involve all of our industries, including the oil and gas industry, will this move both demand and require further significant capital outlays, as far as your projections show?

Mr. Marlo Raynolds: I guess we're seeing a number of companies work on trying to be more environmentally friendly in their approaches and taking on new approaches to deal with carbon emissions.

For instance, Petrobank Energy and Resources has a toe-to-heel air injection program that does underground partial upgrading and doesn't require natural gas as an energy source. We have other companies that have worked on using carbon dioxide to produce other products, such as oil or gas. For instance, with its Weyburn project, Encana is actually importing carbon dioxide from, I believe, North Dakota to produce oil through a miscible flood program. Similarly, Apache is involved in a miscible flood program at Midale, which also takes carbon dioxide and produces oil from it and sequesters the carbon dioxide in the process.

And to a large degree, some of that has been driven by tax incentives or R and D incentives provided to these companies to be able to experiment with these new technologies.

Other existing oil sands projects have been working on cleaning out the tailings ponds or using less in that regard. So we're seeing a lot of developments in that area.

Ms. Diane Ablonczy: You mentioned that some of the projects being contemplated will not be going ahead, in your analysis. If these projects don't go ahead, what will be the impact on the Canadian economy, in your analysis?

Mr. Marlo Raynolds: We think these projects are key to Alberta's continued growth and development. Again, one thing to keep in mind is that somebody's cost is somebody else's revenue. So if these projects don't proceed, the income normally earned by people working in these projects is not going to be earned by them. Again, if you see the growth in the construction industry and the number of people employed in that field, that economic development is just not going to occur. From the government's perspective, any royalties or taxes gained from that production, or even from the personal income earned by the people working in the industry, is not going to be earned.

● (1330)

The Vice-Chair (Mr. Massimo Pacetti): Thank you, Mr. Roberts.

Thank you, Ms. Ablonczy.

Okay, Mr. Bevington, for six minutes, please.

Mr. Dennis Bevington (Western Arctic, NDP): Thank you, Mr. Chairman.

I didn't catch the whole story here. Also, I've been involved with the natural resources committee for about three months.

I think, clearly, what you're saying is that you need this tax break to encourage the companies to invest, but when we are looking at the industry, we are looking at projections of an expansion to three and a half million barrels a day by 2015. We are at a million barrels right now.

Within the projects that are going ahead right now, we are experiencing labour shortages throughout western Canada. We have overheated the economy. The goods and services that are being used in the tar sands are taking away from the profit in the projects that are going ahead. So there is a bit of a relationship. As this thing heats up, then, you're making the argument that we can't afford to give back the tax break that was put in in 1995.

At the same time, we are also looking, in the industry, at starting to outsource from offshore some of the major pieces of equipment that are going into the tar sands. From my understanding, we are looking at bringing them down the Mackenzie River and then through the waterway system to Fort McMurray, in 2,000 tonne groups, from offshore, from other countries.

So we may be losing employment and economics as well, if we continue to expand at the same rate and see this sort of buildup of activity in the area.

Is there a reasonable limit in the Canadian economy to what we're doing in the tar sands? That would be my question to all of you. Should we have an industrial strategy, which sets some kind of parameters for the expansion of this area in a logical fashion, that will deliver resource revenue and taxation to government, ensure that costs remain reasonable, and ensure that the rest of the economy is not altered in a negative fashion through this rapid expansion?

The Vice-Chair (Mr. Massimo Pacetti): Mr. Bevington, can you direct the question to one person in particular?

Mr. Dennis Bevington: Everybody can take a shot at it. What's the limit?

The Vice-Chair (Mr. Massimo Pacetti): Does anybody want to go at it first? Yes, Mr. Plexman, go ahead.

Mr. Robert Plexman: I'm happy to respond to that one.

I guess the first point I want to make is regarding offshore. Most of the large vessels and equipment for these oil sands plants have, for a long time, been built offshore. Korean fabrication shops are highly skilled. They're global. This is a global industry. So that isn't something new that we've gone offshore.

You mentioned floating the stuff down the Mackenzie River. That's highly innovative. That is one way the industry is reacting to these cost pressures. Because for the project you're talking about, the Northern Lights project, the only way they can compete is to come up with a highly innovative strategy to develop their oil sands, and we can talk about that later.

As far as addressing that one, the industry will get there first. You're already seeing changes. I will give you examples. There is Imperial Oil with their Kearl project. Tim Hearn, the CEO of Imperial Oil, was the first one to warn about escalating costs. They have slowed down that project. There is Husky and their Sunrise project. If you went up to Shell's Albian project, Husky's the one right next to it. Their Sunrise project is a fantastic project. That thing has basically been on hold for the past year. It has received regulatory approval and board sanctioning. They're trying to figure out a way to market that oil and still generate a fair return for their shareholders, recognizing the escalation in costs. Fort Hills is the third one I will mention.

What I'm saying is that the people running these projects are not stupid. When they feel the limit is reached, they will back off. So what I'm saying is that Imperial Oil has already hit the limit for Kearl. Husky has hit the limit, and we are seeing modification at Fort Hills, because they realize that they are approaching the limit.

So that process is under way without having to plan for it. That's how the industry is reacting to these pressures.

● (1335)

The Vice-Chair (Mr. Massimo Pacetti): Okay. Thank you, Mr. Plexman.

Mr. Raynolds, I think you had your hand up. Go ahead.

Mr. Marlo Raynolds: Yes, thank you.

There is no doubt that there will be winners and losers as we choose to work in a market-based economy. We've heard examples of some companies that are losing, but if you look at Canadian Natural Resources Limited, their Horizon project is on budget and on schedule, despite many of these market changes.

Shell Canada and Suncor have just announced new expansion projects in the last two weeks; they have demonstrated confidence in it. We've also heard that 15% of oil reserves are in non-OPEC, an incredible driver to continue investment in Canadian oil sands.

I think the key here is to ask whether it is really the responsibility of the Canadian taxpayers to be subsidizing this now mature and very competitive industry. To set limits on development, the most powerful method will be to ensure that the full cost of production is incorporated.

Right now there's an amazing environmental subsidy in terms of air, land, water, and global warming. If we capture those costs and ensure that the oil sands have to compete on a level playing field, that will be a driver to ensure that we're protecting the environment. It's government's role, in my mind, to set the environmental outcomes that are desirable for all Canadians around air, land, water, and global warming. Let companies compete on how best to achieve those environmental outcomes, but it's a requirement to put forth very clear outcomes that ensure protection of the environment.

[*Translation*]

The Vice-Chair (Mr. Massimo Pacetti): Thank you, Mr. Bevington.

Mr. Thibault.

[*English*]

Hon. Robert Thibault: I have a couple of questions.

Mr. Plexman, in your analysis and in your expert opinion, if we remove the accelerated capital cost depreciation, what would be the return on investment? How would it affect the return on investment —not of the existing Suncors or Syncrudes, but of the ones that are nearing production or would be start-ups now?

Mr. Robert Plexman: It's a fair question, a great question.

When I first started reading about these possible changes, I started fooling around with the numbers, and here again, as I said at the beginning, the companies don't tell me what their capital cost balances are and actually how much is available for the accelerated capital cost allowance. But playing around with some numbers....

I'll use Suncor as an example. When I add up my numbers on Suncor, I think a fair value for that company's stock is $100 per share. That's our price target. It's my job to set price targets.

If I go through the analysis—and here again, I'm looking at it completely from outside—if we cut that accelerated capital cost allowance down to 25%, so that it's the same as CDE, my net asset value drops from $100 per share to $80 per share. That's the impact on one of the leading companies in the industry.

I don't have the numbers for the other ones—

Hon. Robert Thibault: So on Suncor you would calculate a reduction of 20% of value, but you're telling us that you don't have access to the information for the accelerated depreciation. How can you make that calculation without—

Mr. Robert Plexman: Basically what I do is this. The way the model is set up now, of course, when we talk about these expected returns of $60 oil and the existing fiscal regime, whether royalties or the capital cost allowance, all we do is basically assume that they start paying taxes sooner. The whole point about these oil sands plants is that under the existing fiscal regime, recognizing the 13 years it takes from conception to being in business—

Hon. Robert Thibault: But couldn't you calculate it the other way? Couldn't you look at what the replacement of asset costs is in a fiscal year and say that if in 2008 they're going to need 20 trucks, then you could assume they're going to write off those 20 trucks all in that year?

Mr. Robert Plexman: Yes, but I don't have that detail, so I'll look at the organization. I'll look at the revenue that's generated. Once an oil sands plant returns their capital, then they start paying taxes. If we assume that they start paying taxes sooner, that basically affects their share of the revenue, and that's how I get that drop in the value of the company.

Hon. Robert Thibault: Shouldn't your assumptions apply across the board to all companies in that sector?

Mr. Robert Plexman: Oh, no. I can only.... I don't know it for the others.

● (1340)

Hon. Robert Thibault: Here is one final technical question. When I look at the financial statements of a company that's listed on the TSX or any other stock exchange, there are always notes attached that warn the investor what the liabilities are of these companies and what assets they might have that don't appear—the notes of the auditor. Wouldn't those figures for the allowance for accelerated capital cost be included in the notes of the auditor?

Mr. Robert Plexman: Not that much detail. That's a summary. We scour every document we can get to try to improve the quality of analysis, but we don't have that kind of detail.

Hon. Robert Thibault: But even in the audited statements filed with the TSX, we didn't have those.

Mr. Robert Plexman: No.

[*Translation*]

The Vice-Chair (Mr. Massimo Pacetti): Thank you, Mr. Thibault.

Mr. Paquette, please go ahead. Then it will be Mr. Wallace's turn.

Mr. Pierre Paquette: I'm speaking to Mr. Langlois, or others.

Mr. Plexman told us a little earlier that we had to help the oil sands industry because we had to ensure we had a certain degree of energy self-sufficiency, since oil comes in large part from countries that are not very safe, like Iran or Irak. Even Venezuela may appear to be a problem for some.

It seems to me those arguments instead justify not providing financial support for development of the oil sands, since the companies that invest in the oil sands have the advantage of being able to operate in a safe and democratic country.

Doesn't that advantage mean that, even if we eliminate accelerated depreciation measures, they'll still want to invest in the oil sands?

Mr. Jean Langlois: That's correct. Once again, if you compare the situation to that of the renewable energy and energy efficiency sectors, the benefits aren't there. In fact, our presenter — an independent commentator whose name I forget — told us that the Canadian sector didn't have the capability to deploy certain technologies. He gave us the example of wind energy. In his opinion, we'll still be depending on the oil industry for roughly 100 years because our renewable energy sector — and I'd say the efficiency sector as well — currently does not have the capability to deploy, to implement these technologies on a major scale. Consequently, if our objective is energy self-sufficiency and less dependence on a sector that apparently needs this kind of tax benefit, we should instead invest in renewable energies and energy efficiency.

Mr. Pierre Paquette: Do I still have a little time, Mr. Chair? I'd like to speak to Mr. Plexman.

The Vice-Chair (Mr. Massimo Pacetti): You have two minutes left.

Mr. Pierre Paquette: If I understand correctly what you're telling me, the international price of oil isn't high enough for some oil sands deposits to be profitable, or at least as profitable as the deposits that are easier to exploit. Isn't that similar to the argument that people gave us in the 1960s for keeping our coal mines?

At the time, the price of oil was so low that it was much more costly to produce a tonne of energy with coal. People said we had to keep those jobs, in Cape Breton, among other places, and we subsidized them. However, a lot of people, particularly in the investment world, said we should let the market determine what should stay open, particularly since coal, as we know, pollutes.

I get the impression that, if we want to let the market operate, the day the price of oil is high enough to justify developing the oil sands, without preferential treatment, consumers will pay for that. I admit that you haven't yet convinced me. I'll give you one last chance; you have 30 seconds to do it.

[*English*]

The Vice-Chair (Mr. Massimo Pacetti): Mr. Plexman, can you just quickly respond?

Mr. Robert Plexman: Okay. This will take maybe 32 seconds.

You're right about the grade of the resource, and it gets back to your question about the oil sands economics. Syncrude, the Shell part that you saw, and Suncor are the best deposits. They're the ones that were developed first.

In the presentation I left for you, there are a couple of charts looking at the quality, and there are changes in the quality. This is basic resource economics. As the price goes up, the stuff that wasn't economical before starts to become economical.

You still have companies buying leases. You have Royal Dutch spending hundreds of millions of dollars on leases. They're still in the very early research stage of studying how to get this stuff out. It's oil and carbonate rather than oil sand.

So that's what you get when you have this increase in oil prices. Does that mean that the cost doesn't go up? Well, no. It costs more. There's more competition. I guess that's the point I'm trying to make, that as this industry is developed, we just see more and more competition, which is great for our business.

● (1345)

The Vice-Chair (Mr. Massimo Pacetti): Thank you, Mr. Plexman.

Mr. Robert Plexman: Thank you.

The Vice-Chair (Mr. Massimo Pacetti): Mr. Wallace, for four minutes, and then we'll try to wrap this up.

Mr. Mike Wallace (Burlington, CPC): Thank you, Mr. Chairman.

I've done a little bit of reading on this, and there is a history to the accelerated capital piece that we're dealing with today. I want to remind everyone that it started way back in the early seventies. Oil sands were added in 1996 by the Liberal Party. I think the Liberal Party might have been in power in 1974, actually.

And this doesn't just apply to oil sands, it applies to all mining, which we were reminded about earlier, whether it's diamond mines in the north, potash in Manitoba, or mining in Quebec or any other province. For those highly capital-intensive industries that take a long time to get up and going, it is a tax system that is used to try to generate economic wealth in that area and development in that area.

On the environment, which we've heard a little bit about today—I'm pulling a little Thierry here—we've heard a lot about having the oil sands pay their way in terms of the environment and trying to have them do something to be more environmentally sensitive. I think they're working in that way, but then we're penalizing them by taking away an opportunity for them to invest in new capital and new innovation, based on what's been discussed here today by a number of groups.

It makes no sense to me that in an area where we think there needs to be improvements, we take a tool away for them to actually invest in those improvements, and I think a reduction in the accelerated capital cost allowance would do that for that industry.

The other issue that we talked about today was cashflow. We have an example here of the oil sands economy, a sample of Syncrude, at almost $59 a barrel. We heard testimony earlier that a mere seven years ago, it was at $20 a barrel. It wasn't that long ago, then, that there was that kind of fluctuation.

We also heard, at the very same time, that it takes seven to up to twelve years to get one of these projects off the drawing board, into the ground, and actually producing revenue. This capital tax allowance only happens when the revenue is generated. So there's a big investment, both domestically and to attract capital from around the world, to try to get this here.

If we thought accelerated capital allowances didn't work, then this is my question to the rest of the committee, and then I have a question for the panel.

I just want to point out to the committee that there is a report on manufacturing, “Manufacturing: Moving Forward–Rising to the Challenge”. It was supported by every party in the House, including the Bloc. I've looked at this, and the Bloc, which brought this motion to begin with, talked about increasing the “capital cost allowance for machinery and equipment used in manufacturing and processing and equipment associated with information, energy and environmental technologies”.

So you agree that they work. You want them to happen. They are working in this environment. They are working in this industry. Even in your additional supplementary opinion, which is not opposite what the recommendations are—you say that right in your supplementary report—you state, “The government must make a rapid about-face and propose a set of measures to provide better support for industry.” We are doing that and we will continue to do that.

You name a number of industries, including furniture and forestry. I'm assuming that if it's good enough for oil, you understand that reducing the upfront costs in companies on capital cost allowance is important for them to survive.

Is that about four minutes, then?

● (1350)

The Vice-Chair (Mr. Massimo Pacetti): Thank you, Mr. Wallace, for addressing those comments through the chair. I really appreciate that.

On that note, just before we end, Mr. Plexman, I just have a quick question on flowthrough shares. I understand that the mining industry uses flowthrough shares quite a bit. That means passing on a lot of the eligible income tax deductions. Is accelerated CCA part of those? Are you aware of that?

Mr. Robert Plexman: I don't know.

The Vice-Chair (Mr. Massimo Pacetti): Mr. Roberts, are you aware? Do you know?

Mr. Bill Roberts: I can't respond to that. I don't know.

The Vice-Chair (Mr. Massimo Pacetti): Thank you.

Thank you to the witnesses for coming forward, and thank you to the witnesses in Calgary as well. Thank you for taking time out of your day.

If we can just continue....

[*Translation*]

Yes?

Mr. Pierre Paquette: Could we have a brief report on this subject on Thursday?

The Vice-Chair (Mr. Massimo Pacetti): I'm going to turn the floor over to Mr. St-Cyr, who has requested it, or to you, Mr. Paquette.

Go ahead.

Mr. Pierre Paquette: We should make a recommendation: either we grant all industries the 100 percent accelerated depreciation, or we disallow that depreciation for the oil sands industry.

Mr. Thierry St-Cyr: Mr. Chair, I simply wanted to ensure that, pursuant to the resolution passed by the committee, we have at least a half hour on Thursday to pass recommendations for the minister, and to table them in the House on Friday, before the budget is presented. That shouldn't necessarily take long. We have perhaps two or three recommendations that we'll have to discuss. I suppose we can agree quite quickly. Most of the parties, if not all of them, have already taken a position.

[*English*]

The Vice-Chair (Mr. Massimo Pacetti): I have the motion here.

[*Translation*]

Mr. St-Cyr, I don't have it in French.

[*English*]

The last paragraph says “one session before March 1 to consider and prepare its recommendations to the minister”.

I leave it up to the committee. The other problem is that if we do choose to meet on Thursday and we do decide on what recommendations we're going to recommend, we'll never get things translated and tabled in the House. That has to be taken into consideration.

I will allow you to speak, and then I will allow other members to speak.

Monsieur St-Cyr.

[*Translation*]

Mr. Thierry St-Cyr: We finish at 1:00 p.m. on Thursday. So we could continue the meeting for a while. To expedite matters, we can also present our recommendations, which are already translated. Once they've been agreed to, all we'll have to do is present them in report form. That report shouldn't necessarily contain all the evidence; it could contain only the recommendations tabled in the House so that the committee makes its proposals known to the minister before he prepares his budget.

The Vice-Chair (Mr. Massimo Pacetti): If the committee decides...

[*English*]

If the witnesses want to go, you can go.

[*Translation*]

If the committee decided that all parties should table a report, and if they were already translated, that would be possible. But if each party produces an untranslated report, that wouldn't be possible, since we have to anticipate at least 24 hours for translation and the report must be tabled at 10 o'clock Friday morning. I don't see the logic in doing it. I'll leave it up to committee members to make a decision.

Mr. Thibault.

Hon. Robert Thibault: I don't know the details of my colleague's motion, but, if he wishes, he can submit a notice of motion today. If agreed to, that motion would be presented in the House, which would report without necessarily using the committee's staff. We can do it in the form of a motion.

The Vice-Chair (Mr. Massimo Pacetti): A motion isn't even necessary. If we all decide that the parties can table a report on Thursday, each party is free to do so. We can do what we want, as members.

Hon. Robert Thibault: If there isn't any 48-hour notice, there must be unanimous consent.

The Vice-Chair (Mr. Massimo Pacetti): Mr. St-Cyr's motion does not require us to table a report, but to prepare recommendations. I'm not sure what that means.

[*English*]

Again, I repeat in English, "one session before March 1 to consider and prepare its recommendations to the minister". We did not detail how we were going to prepare those recommendations or if they were going to be in a report or not, so I'm in the hands of the committee.

Mr. Wallace.

Mr. Mike Wallace: Unfortunately, I'm completely confused on what we're doing here. I'm not sure if Mr. St-Cyr has put a recommendation on the floor. If he has, I'd like to hear it.

Second of all, based on what you're telling my colleagues over there, if we wait until Thursday, if he brings a notice of motion and we deal with it on Thursday, there will be no report. We could deal with the recommendations but there will be no report that would be capable of making it to the House by the time we recess on Friday. Is that an accurate statement?

● (1355)

The Vice-Chair (Mr. Massimo Pacetti): Let me explain to you.

Logistically, we're not going to have any time to prepare a report and get it translated even if there is a motion. By the time the motion goes through 48 hours, we adopt the motion on Thursday, and we decide to go ahead with the report, we're not going to have time. Logistically, even if we were to decide on Thursday that we are unanimously for a certain point or a certain recommendation, that report has to get translated. It can't be done on Thursday and be ready to be tabled by Friday, because Friday is the last day and it has to be tabled by 10 o'clock or 11 o'clock.

Mr. Mike Wallace: Is there a motion on the floor?

The Vice-Chair (Mr. Massimo Pacetti): Yes, the only recommendation that I can see, and Mr. St-Cyr can correct me, is if we all decide that each party, or member on the committee, takes it upon its own business—not forced—to prepare its own report, translate it, and give it to this committee by Thursday, in both official languages, and then we can table it. Any member can table it. It doesn't necessarily have to go through the committee. We can decide to do it through the committee or outside of committee.

Mr. Del Mastro, Mr. Dykstra.

Mr. Dean Del Mastro: Thank you, Mr. Chair.

I was just going to suggest that the original motion was that we would have hearings and that we would make some recommendations. I propose we spend some time on Thursday making some recommendations that we can forward to the finance minister. We don't need to prepare a formal report. We can certainly forward recommendations to the finance minister. I think that's entirely consistent with what Mr. St-Cyr is looking for.

The Vice-Chair (Mr. Massimo Pacetti): Sorry, on that last recommendation, the members cannot table a report on their own. It has to be done through the committee. The members can write a letter directly to the finance minister.

Sorry about that.

Mr. Dykstra.

Mr. Rick Dykstra: I just wanted to get some clarification on a comment made by Dean. There is no report in hand, there is no vote on whether we're going to forward a report to the minister. My understanding of what our plans were is that we were going to hold hearings and then consider whether or not we were going to make some recommendations. I thought that's where we stood.

If what we are doing is something different from that, then I would think we'd need some sort of amending motion to be able to do that.

The Vice-Chair (Mr. Massimo Pacetti): The motion, again, reads "one session before March 1"—which is what we've done—"to consider and prepare its recommendations to the minister". It doesn't say whether it's in writing, a formalized report. It says "prepare its recommendations to the minister".

Monsieur Wallace, Ms. Ablonczy, and then Mr. St-Cyr.

Mr. Mike Wallace: Based on what you've told us about the other option of each party's writing a commentary—because it's not a report—I'm assuming that those just go directly to the minister. They do not come back here for discussion at committee. They have no committee support.

The Vice-Chair (Mr. Massimo Pacetti): I don't see how it could work.

Mr. Mike Wallace: Okay.

Well, we don't really have a motion in front of us. I think we should just adjourn today and come back and discuss it on Thursday, where we're going to go with the recommendations.

The Vice-Chair (Mr. Massimo Pacetti): Ms. Ablonczy.

Ms. Diane Ablonczy: I just want to point out that the finance minister continues to be open to input. He met with the critics of all the parties over dinner for two hours to discuss concerns and recommendations for the budget. I'm sure if the Bloc have some further recommendations they'd like to make, the minister would be open to Mr. Paquette's discussing those with him or giving him a letter. I think there's certainly time for the Bloc to put any further concerns forward to the minister, and I'd encourage them to do that.

[*Translation*]

The Vice-Chair (Mr. Massimo Pacetti): Mr. St-Cyr.

Mr. Thierry St-Cyr: I wasn't talking about preparing a report on all the evidence, as we usually do, because we obviously wouldn't have the time to do that by Thursday. I was talking about preparing something with two or three recommendations on which committee members agree. Then we could adopt them and submit them to the House like any other opinion.

Is that preferable to proceeding by motion? We could prepare a motion this afternoon and send it to you, then we could proceed with the vote on Thursday.

[*English*]

The Vice-Chair (Mr. Massimo Pacetti): We're going to do this simply. The suggestion that I have right now is that all parties submit something to this committee on Thursday, whether you want to call it a recommendation.... Once it's put together, it's going to be called a report. If you want to just call it comments, I don't really care what it says. We're going to vote on whether that's acceptable. If you decide not to do that, then my other suggestion would be that you all write to the minister, and if you decide to put forward a motion, then that's up to every member in this committee.

We're going to vote on option A, which is that all parties submit one or two pages. Let's vote on the essence, and then we'll decide what we do.

● (1400)

Hon. John McKay: For them to submit a report or not? This doesn't mean anything.

The Vice-Chair (Mr. Massimo Pacetti): That's up to the members.

So everybody in favour for each party to submit a one- or two-page commentary on Thursday in both official languages, please raise your hand.

Nobody.

Okay, it's opposed. So what are we doing here?

[*Translation*]

Mr. Thierry St-Cyr: The motion would read as follows: That the committee devote 30 minutes on Thursday to voting on recommendations for the minister.

[*English*]

The Vice-Chair (Mr. Massimo Pacetti): Okay, do we have unanimous consent that on Thursday

[*Translation*]

we'll discuss the position we propose to the minister for 30 minutes?

Mr. Thierry St-Cyr: For recommendations to the minister.

[*English*]

The Vice-Chair (Mr. Massimo Pacetti): Is it unanimous? No.

[*Translation*]

So you have to introduce a motion, Mr. St-Cyr.

[*English*]

It's not unanimous. Okay?

[*Translation*]

You have to introduce a motion in the prescribed manner.

[*English*]

Before we go, I'd like to give formal consideration to a motion. I'm just going to read it into the record, and then we can adjourn.

Given that the finance committee has adopted a motion to study charges related to ATM fees, and that during the hearings of the finance committee concerning Bill C-37, testimony was received respecting the timeliness and charges related to electronic payments, I move that in addition to the Standing Committee on Finance's study of ATM fees, it include concurrently an examination of any issues related to the electronic payment process.

You will get that in writing.

On that note, thank you very much.

The meeting is adjourned. We'll see you Thursday.

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