Speaking Notes – Presentation to House of Commons Standing Committee on Finance

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Presentation by Marlo Raynolds, Executive Director, Pembina Institute

Disclaimer: These are speaking notes only, please confirm with official transcript.

Good afternoon ladies and gentlemen, and 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 expert on the oil sands. Normally our Senior Economist Amy Taylor would be here today but unfortunately she is out of the country this week.

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 55 staff across 6 offices. We grew out of Alberta and consider ourselves Alberta based.

Over the past 15 years we have been engaged in addressing the environmental concerns of developing the oil sands. We have been witness to the exponential growth in the sector, having had a presence in every major development of the oil sands.

Today the focus of our discussion is on the tax treatment of the oil sands and specifically the Accelerated Capital Cost Allowance (ACCA).

We respectfully recommend to the committee that the Department of Finance eliminate the 100% ACCA for the oil sands and return the rate to the standard 25%.

We believe the 100% ACCA for oil sands is an irresponsible use of the taxpayer's money.

The oil sands sector is mature by all measures:

- By the presence of all major multi-national oil companies.
- By its international recognition.
- By the scale of capital investments of over $40 billion over the past 10 years.
- By the scale of approved projects and associated capital – on the order of $40 to $60 billion over the next decade.
- By today's production of 1.2 million barrels per day – a target set for 2020 but achieved in 2004.
- By the fact that approved projects today will take us beyond 2 million barrels per day.
- By the fact that all the companies with high stakes in the oil sands are among the most profitable companies in Canada.

It is clear the industry is well established and strong drivers for further growth exist:

- Continued growth in demand for oil from our neighbours to the south and our Asian partners;
- The fact we have the second largest proven reserve of oil in the world, second only to Saudi Arabia;
- The fact we are the single largest oil reserve in a democratic country;
- We have highly skilled workers who want to live in our country because it is a modern and safe country.

As a result, the industry does not need taxpayer support.

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

Canadians should be more concerned of developing this resource too fast without adequate protection of the environment. The oil sands is not only the fastest growing industry in Canada, but also the fastest growing source of greenhouse gas pollution. Any subsidy to the oil sands is 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, this committee is now having to investigate the matter to ensure the taxpayer is getting value for their investment.

Given that in 1995 the cost of production of the oil sands represented 64% the value of a barrel of oil and in 2006 only 44% of the value of a barrel of oil was spent on production;

And given the profits of oil sands company – Imperial Oil $2.6 billion in 2006, Shell Canada $2 billion – these companies do not need the help of the tax payer.

Clearly profits are good, it is why individuals invest – but 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, in the interest of responsible use of taxpayer dollars, that we eliminate the 100% ACCA for oil sands and invest those tax dollars into 21st century energy sources such as low impact renewable energy.

Thank you for your attention.