

Kitimat LNG



Apache

LNG CANADA

Opportunity for British Columbia. Energy for the world

Joint venture companies



Mitsubishi Corporation



August 6, 2014

Mr. James Rajotte, M.P.  
Chair, Standing Committee on Finance  
Sixth Floor, 131 Queen Street  
House of Commons  
Ottawa ON  
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FINA@parl.gc.ca

**RE: Submission to the House of Commons Finance Standing Committee**

Dear Mr. Rajotte:

We are writing on behalf of the formative BC LNG Developers' Alliance (BCLNGDA) as we seek to create opportunity for British Columbians and Canadians through our desire to advance liquefied natural gas (LNG) projects. The BCLNGDA comprise a number of the leading proponents with proposed BC LNG projects, and whose purpose is to support the efficient and responsible development of a new globally competitive LNG export industry in British Columbia. BCLNGDA wants to see BC and Canada become a globally competitive exporter of natural gas through the diversification and capture of markets, and away from our current sole reliance on a single export customer. The proposed LNG export projects in Canada, including the projects we are attempting to advance in British Columbia, would help achieve that objective while further reducing global dependence on other more GHG intensive forms of energy.

We look forward to working with you and your colleagues in the coming months on a number of LNG related issues including jobs and workforce development, movement of goods and people, regulations, First Nations matters, and other critical needs for a possible LNG export sector in Canada. In the meantime, we believe that there is a specific tax policy change that the government can bring forward in Budget 2015 to help increase the possibility of LNG projects proceeding in Canada.

Consistent with earlier submissions from the Canadian Association of Petroleum Producers (CAPP), the BCLNGDA suggests that the government should recognize LNG facilities as manufacturing facilities. To create and maintain competitiveness with

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competing LNG projects from other parts of the globe, the BCLNGDA is requesting a change in the federal tax treatment for natural gas liquefaction facilities from Class 47 (8% declining balance) to Class 43 (30% declining balance). The technical merits of classifying an LNG facility as manufacturing have been outlined in earlier CAPP submissions and are beyond the scope of this letter. The BCLNGDA wish to provide you and your colleagues further information in this regard in the coming months.

This reclassification would help all proposed LNG projects, both on the Pacific and Atlantic coasts, receive similar treatment with other international regimes. This will aid Canada when seeking to secure LNG markets and globally mobile investment capital. Further, we believe this tax change focuses specifically on correctly defining the function of LNG facilities as a manufacturing facility, and would not have other unintended federal tax policy impacts.

While this tax policy change would provide a benefit to LNG projects during the first five years of their project life through enhanced capital cost allowance deductions, this benefit would be offset by lower capital cost allowance deductions over the remaining term of LNG projects and greater corporate income tax revenues for Canada during this period. On a net present value basis, this initial tax reduction would reduce the effective cost of capital for an LNG facility, and in our view provide incentive to the LNG industry to invest, thereby resulting in a further increase in economic activity, jobs and revenue for Canada.

As companies with a variety of assets and investment alternatives, we recognize that every LNG opportunity is unique, and analysis of competitiveness should attempt to allow for fair comparisons of both costs and benefits as part of the review process. In this regard, Canada has a world-class upstream natural gas resource, and BC has high quality potential LNG sites, with reduced LNG shipping distances to Asia markets, and a strong political commitment to build an LNG sector. Government and industry need to work together to ensure that all Canadian jurisdictions are taking the necessary measures to realize this opportunity, including competitive fiscal treatment of LNG facilities so that these projects can compete globally for markets and capital.

The BCLNGDA respectfully believes that appropriately recognizing LNG facilities will support the proposed themes being considered by your Committee for Budget 2015 including:

- Balancing the federal budget to ensure fiscal sustainability and economic growth;
- Increasing the competitiveness of Canadian businesses through research, development, innovation and commercialization;
- Ensuring prosperous and secure communities, including through support for infrastructure;
- Improving Canada's taxation and regulatory regimes; and
- Maximizing the number and types of jobs for Canadians.

We would welcome the opportunity to meet with the Committee as you continue to engage around Budget 2015 priorities. We believe that the potential of an LNG sector in BC represents significant opportunities for BC, Canada and the world.

Sincerely,

BCLNGDA



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