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COMPETITIVENESS AND RESOURCE TAXATION: A CASE STUDY OF THE OIL SANDS

A summary of the Symposium

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INTRODUCTION

On September 29th the Conference *Competitiveness and Resource Taxation: A Case Study of the Oil Sands* was held at the Westin Hotel in Edmonton. The purpose of the Conference was to provide a forum in which participants from the private sector, government and academic experts could identify the principal issues in resource taxation, exchange ideas and examine alternatives to the current tax structure being applied to companies engaged in oil sands extraction and development, such as Syncrude, Suncor, Amoco and Esso Resources. The work of the National Task Force on Oil Sands Strategies, particularly the Fiscal Report, provided an important backdrop for the proceedings. The Conference was especially timely because at the present time the federal government is reviewing the resource allowance for mining companies, and the Alberta government is considering replacement of the present individually negotiated oil sands royalty agreements with a 'generic' regime.

VIEWS FROM THE FEDERAL AND ALBERTA GOVERNMENTS

The Honourable Anne McLellan, Minister of Natural Resources Canada, gave the opening address. The Minister stated that the oil sands fitted into a favourable Canadian economic future in a number of ways including the potential for energy development and investment opportunity; the synergy between technology and resource extraction reflected in the significant impact of science and technology in driving down unit costs of production; and continuing private sector capital spending on the resource. The potential of the resource and the opportunity it affords are remarkable and unique; the question is, can we turn that potential into reality.

The federal government takes seriously the recommendations of the Task Force Report. The notion in the Report of a smaller scale incremental approach - as opposed to earlier mega project development - is more "comfortable"; it broadens investor appeal and carries a possibly reduced risk premium. The Minister sees the ultimate success of oil sands projects depending on scientific breakthroughs that keep driving down unit costs of production. While stating that fewer dollars will be available, she assured the conference that the federal government was committed to funding collaborative research and development with the province and the industry.

Turning to fiscal regimes, she pointed out that the Task Force Report seeks harmonization of tax and royalty schemes. This is a major departure from existing policy, and hence it is being studied carefully at both levels of government. Any changes following upon the review of the resource allowance applicable to mining companies would have a significant impact. Consultation is now taking place with government and industry partners. She emphasized that the response to the Task Force Report and the present review of the resource allowance are parallel processes and both will involve not only a careful consideration by the federal government, but collaboration with the provinces.

The Honourable Pat Black, Alberta's Minister of Energy also addressed the conference. She considers the oil sands the greatest strategic resource possessed by Canada, one full of challenges and opportunities. She described the Task Force Report as a "tremendous achievement" that is comprehensive, informative and challenging in addressing oil sands strategies, one that provides a "bold vision" for development. She also emphasized the importance of investment in science and technology as the key factor in development of the oil sands, enabling both increased output and lower unit costs. The provincial government will continue to provide financial support to collaborative research with a focus on support at pre-competitive stages. In addition to science and technology, the Minister also commented on market development, environmental and regulatory issues raised by the Report, before turning to the issue of changing fiscal regimes.

She stated that the province's present royalty system for conventional oil and gas is designed to make Alberta internationally competitive through a stable structure based on production but tied to productivity and prices, with the latter serving as proxies for profitability. She recognized that a difficulty in the oil sands sector is that all agreements have been individually negotiated. These differences in treatment create uncertainty among new entrants as to what the terms may be. She made clear that the Alberta Government can no longer offer subsidies, royalty waivers, tax breaks, or take an equity position in oil sands projects. The government agrees with the Task Force Report on the benefits of a generic fiscal regime for the oil sands, and on the joint consideration of taxes and royalties. New fiscal terms should be designed to:

(a) allow the economics of individual projects to determine the pace and order of development;
(b) provide stability by working well in periods of both high and low prices eschewing the need for *ad hoc* adjustments;
(c) offer certainty to developers;
(d) provide an appropriate share to governments through royalties and taxes.

In conclusion, she pointed out that the Report did not anticipate the federal government review of the resource allowance, and expressed concern that changes in it could have a major impact on the entire energy industry. She emphasized that reduced uncertainty required a timely resolution of all tax issues.

ALTERNATIVE FISCAL REGIMES: IDEALS AND REALITIES

Paul Bradley, Professor of Economics at the University of British Columbia, discussed the ideals and realities of alternative fiscal regimes. Bradley began with the fundamental concept that the royalty is compensation to the state for transferring the exclusive right to develop a resource to a private party. The terms of the royalty have a twofold objective:

(a) to maximize the value of the resource; and
(b) to arrange a division of the net returns between the original owner and the lessee.

He pointed out that historically a royalty takes a percentage of the gross value of production. The advantage of this regime is that monitoring is quite simple and straight-forward. The Crown's royalty claim is based on the *in situ* value of the resource, a claim that resides in the quality of a particular resource. Value added through further processing is not, in theory, subject to royalty claim but accrues through superior technology. In practice isolating *in situ* value entails imputing processing costs, and the difficulty of so doing is a rationale for basing royalty calculations on the gross value of production. However, the objections to the traditional approach are that it cannot lead to a maximization of resource value (marginal projects are not undertaken), and that the system does not automatically adapt to low prices. Realistically it requires "tinkering".

In presenting alternative regimes, he dismissed the suitability of an outright sale of mineral rights up front at auction without subsequent recourse to royalties. If the needed technology is proprietary, there are likely to be few bidders and the government as owner of the resource will not receive full value. Further, all risk is assumed by the developer, whereas higher value for the resource might be realized if the Crown shared risk. Another consideration is the uncertainty about value, so that a large number of auctions are likely to be necessary if the government is to receive full value on average.

Bradley then discussed the resource rent royalty (RRR). The basic premise of the RRR is that the royalty should be based on net returns. The RRR avoids the discrimination between capital and operating costs with immediate amortization of capital expenditures removing the bias inherent in the depreciation procedures of the corporate income tax (CIT). Also, postponing royalty payments until the investment is repaid reduces the risk borne by the developer, and shifts some of it to the Crown. The difficulty with this approach in its simplest form is that the Crown as owner of the resource is unlikely to entertain negative royalties. The solution is to carry forward negative cash flows in an 'accumulation account'. In British Columbia, where a form of the RRR has been applied to the mining industry since 1989, this is referred to as a 'Cumulative Tax Credit Account'. Interest accrues on this account at a prescribed rate.

Implementation of a RRR is not a simple matter. One practical problem is the setting of the accumulation rate. Should it be the average opportunity cost of capital? a risk free rate such as the central bank discount rate? an upwardly adjusted bank rate? Bradley pointed out that not all projects have the same level of risk and therefore a single accumulation rate introduces a bias against riskier projects. A further practical problem is the setting of an appropriate royalty rate. The rate set must preserve incentives for cost reduction by the lessee. It is also possible that the residual claim, or the economic rent, may not be entirely attributable to the quality of the resource itself. He suggested that the best way of dealing with these problems is through a risk free accumulation rate and a modest royalty rate.

Bradley introduced the 'sovereign risk' issue. Delayed royalty payments increase the risk borne by the province but this aspect of the proposed system, though favourable to development at the margin, may pose a political problem. If a project's economics dictate that no royalty be paid for a long period despite visible accounting profits, public pressure will likely arise for the government to adjust the policy. This risk of a change in the fiscal regime—the sovereign risk—is disadvantageous to developers. One means of addressing the problem—reducing sovereign risk—is incorporated in the British Columbia fiscal regime. There, a base royalty is levied on net operating income but is fully deductible from the RRR component of the royalty system.

"Projects" are defined by deposits, usually coterminous with a particular lease. Defining the project scope—or the "ring fence"—raises a number of issues. For example, in the case of the oil sands, broadening the ring fence to embrace all activity undertaken by a particular corporate entity can be more efficient. Since contributions by the government are not contemplated if a project is ultimately unprofitable, a portfolio of projects enables the corporation to offset, in some degree, this bias in the RRR. However, it is also likely that the wider the ring fence—whether horizontally in the form of different deposits, or vertically through further processing—the greater the likelihood of delay before the first payment of the royalty. This problem and its political consequences referred to previously, becomes more acute should the designated accumulation rate exceed the true opportunity cost of capital.

A panel consisting of **John Livernois**, Professor of Economics at the University of Guelph, **Leo Bingleman**, Vice-President of Fording Coal and **Al Craig**, Deputy Minister of Alberta Economic Development and Tourism, commented on Bradley's presentation.

Livernois commented that since the oil sands were presently at the low rent end of the industry development was very sensitive to existing royalty systems. He felt that where the Crown is in a position to monitor costs it can do better than the gross value of production royalty regime. In moving to a RRR it is desirable to know the opportunity cost of capital, since if it were measurable, then the annual flow of economic rent could be identified and a pure rent tax adopted. However, in practice information is not perfect, it is hard to measure the opportunity cost of capital, and hence very difficult to distinguish the return to rent from the return to capital. Underestimation or overestimation of the opportunity cost of capital may result in a distortion about what is rent and what is profit. Effectively, it is very difficult to distinguish with precision what is a return to the resource and what is a return to capital. However, Livernois agreed with Bradley that "the perfect can be the enemy of the good". He expressed a strong preference for RRR over a gross value of production for royalties. He recognized that the so-called Brown tax is not feasible because it would require a payout from the Crown to developers when the rent base is negative.

The second best solution would be to carry forward the negative portion of the base at a rate proxying the opportunity cost of capital. This would be most effective where the option to carry forward of the negative accumulation base existed in the form of a royalty credit to offset royalties due on other projects, or as a credit against the provincial corporate tax.

Leo Bingleman expressed the view that the largest part of the risk in the resource business is the uncertainty of tax regimes. He suggested that the present status of the federal resource allowance was one of those uncertainties. He did not favour the gross value of production royalty regime because it benefits the profitable and penalizes the less profitable.

The present British Columbia RRR, an improvement over the gross value added royalty, works reasonably well but always at stake are the accumulation rate, the royalty rate, and the boundaries of the "fence". For Bingleman, the Brown tax version of RRR is impractical for the reason that governments would not tolerate an erratic revenue flow. In endorsing a RRR his preferences are a large fence; a "modest" accumulation rate—indexed to the long bond rate; a low and non-confiscatory royalty rate; and the option of crediting a negative accumulation base against net revenues from other projects. Under the RRR he saw the government's only risk occurring where the resource is exploited by an inefficient producer. He stated that the fence under the British Columbia fiscal regime might be improved by extending it beyond the "mine gate". A mechanism to apply to other projects would be a positive step but this difficulty might be an incentive to those with a heavy capital structure.

Al Craig saw the country having a vital interest in oil sands development, and reported the support of the Alberta Economic Development Authority for the recommendations of the Task Force Report. Over the past decade private investment in the oil sands has averaged $500 million annually or 5% of private investment in Alberta. There is potential for this to rise by

$250 million annually over the next ten years. He stressed the importance of technology to the lowering of unit costs of production in oil sands projects. He regarded these costs as still high, requiring continuing R&D and the application of new technologies.

ISSUES OF CHANGE AND IMPLEMENTATION

Jack Mintz, Arthur Andersen Professor of Taxation at the University of Toronto, spoke on issues of implementing alternative fiscal regimes in resource taxation. He pointed out that in setting optimal resource royalty structures governments have several objectives. These are: sharing the project's economic rent; encouraging efficient resource extraction; assuring inter-generational equity with respect to royalty proceeds; legislating a simple and transparent fiscal regime; providing fairness by treating developers on a similar basis with appropriate recognition of differences in project costs.

Through royalty policy the private sector would like to achieve some objectives of its own. These include: a return to resource exploitation at least covering the cost of capital including risk; ease in compliance; and stability in the fiscal regime. He stated his preference for a cash flow tax/royalty structure.

Mintz concerned himself with an *ex post* rent sharing scheme, the form of royalty proposed for the Oil Sands agreement. A cash flow royalty is appealing because it is efficient and allows the government to fully share risks with the private sector. A cash flow royalty taxes revenues from the sale of extracted products after deducting :

(a) all current expenses except financing costs; and
(b) all capital expenses including exploration and development.

Finally, losses would be carried forward at a rate of interest. Introduction of the cash flow royalty, however, requires consideration of the interaction between royalty and income tax provisions, and also consideration of how implementation is to occur.

He considered a number of aspects of the complex interaction between royalties and other taxes. Under the corporate income tax (CIT) the government taxes returns to equity owners and that includes both economic rent and the return to shareholders for investments in the firm. The result is that from the tax viewpoint there is an overall combined impact of taxes and royalties on the cost of undertaking investment. Still another question arises from the fact that interest is deductible under the CIT, but not deductible under royalty systems.

Mintz reported his estimates of the effective tax rate (ETR) on the Alberta oil and gas industry, i.e. the ETR resulting from the CIT, from the sales and excise taxes on capital inputs and from the payment of royalties. He defined the ETR as the tax generated on income by the last unit of capital employed. He estimated the overall ETR for the Alberta oil and gas industry at more than 60%. If the royalty component is excluded, the ETR for other levies is a negative number at the margin. The meaning of negative number is that losses at the margin may be used to reduce other tax liabilities. Thus, the high tax on the oil and gas industry is entirely the result of a royalty structure based on gross value added.

The negative ETR excluding royalties is driven by a number of factors. These include fast write-offs for exploration and development (the resource allowance base is not reduced by any exploration and development expenditures); future income from exploration and development is however reduced by the resource allowance; there are extremely fast write-offs of assets including the 100% allowable under Section 41(a). Mintz's conclusion is that in setting a cash flow royalty rate it is essential to consider the effect of the CIT. For example, a 50% royalty rate (equal shares) is really confiscatory when coupled with a CIT of 40%.

Mintz then turned to series of implementation issues. With regard to the royalty rate and the circumstances of interaction between the royalty system and the CIT considered above, the 25% rate suggested by the Task Force Report looks reasonable. Difficulties may arise in defining gross income, not so much in terms of the price for crude where uncontrolled market prices exist, but rather where income may arise from the sale of by-products, such as technology, where prices are subject to negotiation. Potential difficulties can also arise in defining certain costs such as marketing, research and development, the allocation of head office expenses, management fees, and other intangible costs not necessarily observable by the government. This problem might be addressed either by avoiding the use of a cost-sensitive tax, or alternatively, the law could provide for presumptive deductions in lieu of expensing non-observable costs.

The relation of royalties to the CIT is another thorny implementation issue. The CIT is a tax on shareholder-accrued income with gross income reduced by current expenses, depreciation of capital and interest expense. Resource royalties are not deductible. The cash flow royalty applies to economic rents with capital and current expenses—but not interest—deductible. If both interest and capital were expensed there would be a double deduction for debt-financed capital. Mintz noted that the Task Force Report on Fiscal Regimes implies that both current and capital costs be expensed up to 100% of all income. One should not assume that this would convert the CIT into a cash flow tax in an acceptable form. Such treatment would be overly generous relative to the cash flow base since CIT allows interest to be expensed as well. If the CIT is a tax on shareholder profits, he suggested that Class 41(a) should be abolished and all assets included as Class 10 (30% depreciation rate) or Class 8 (a 20% rate).

Mintz raised a number of other implementation questions. These include whether a new royalty system could be designed so that payments could be credited against foreign tax liabilities. He also pointed out that whenever dramatic changes in fiscal regimes occur it is very significant to clarify how a transition to the new system is to be secured. Under a cash flow royalty, capital is expensed but capital asset disposals are fully taxed. In that circumstance, would old capital, including the value of property created by past exploration and development, be fully taxed?

With respect to the interest rate to be used for carrying forward losses, he argued that since governments under a cash flow royalty system would implicitly deduct risk from the tax base by allowing their full carry forward, then the appropriate interest rate to be applied would be the riskless rate on a one year treasury bill. He saw no need to add a risk premium to the rate since the cost of risk is already fully shared by the government. Finally, whether there is to be a minimum royalty requires a decision. A minimum royalty could be credited against a current cash flow royalty, or carried forward to reduce cash flow royalties in future years. While minimum royalty payments are likely to have political appeal by creating a quick cash flow, the drawback is that if companies are expanding or facing difficult times then the government will not fully share risks with the developer since some royalty is always payable.

ALTERNATIVE FISCAL REGIMES: THE OIL SANDS AS A CASE STUDY

Alexander Hyndman, Executive, Strategic Projects of Syncrude Canada, **Carl Sonnen,** President of Informetrica, and **David Laughton,** Co-Director of the Canadian Centre for Mineral, Energy and Petroleum Management at the University of Alberta led the discussion about the effects of a generic cash flow royalty structure on oil sands development.

Hyndman began his presentation by offering an overall review of the work of the National Oil Sands Task Force, pointing out that its activities cover five areas of public policy: the science and technology supporting the industry; the management of environmental impacts; the regulatory framework; the marketing and pipeline transportation system; and the fiscal framework. In turning to the fiscal framework he emphasized that in the search for a national policy to support the growth and development of the industry, a change in the tax structure is essential. In its recommendations the Task Force seeks a stable and efficient generic fiscal regime rather than an *ad hoc* regime for each oil sands project. He defined the stability condition as a regime that is the same for all prospective investors and applicable to a range of energy price and inflation experiences. An efficient regime is one that does not distort investment decisions.

The Task force recommendations for a generic regime include the following royalty features:

- elimination of the gross value of production royalty
- a common net royalty rate after cost recovery of 25%;
- a carry forward interest allowance indexed to the 20 year bond rate;
- elimination of gross-ups and royalty free gas.

With respect to the federal and provincial CIT, recommendations are for a broadening of the use of the Class 41a capital cost allowance through:

- eliminating the 25% minimum expansion provision;
- removing ring fencing;
- avoiding 'available for use' rule';
- extending 41a to *in situ* production.

Hyndman provided a number of comparisons of the recommended regime with the *ad hoc* royalty schemes now in place using per barrel prices of $25 for synthetic production and $11 for bitumen. The Task Force concludes that the shift to a cash flow royalty/tax structure will increase investment in the oil sands, and accelerate innovation and efficiency in the industry. Their findings are that differences in direct tax and royalty are small. Over the period to 2002 the direct loss in tax and royalty amount to only $63 million. Weighed against that is a forecast additional $3.1 billion investment, a $1.8 billion improvement in international trade and fiscal balances, and the creation of approximately 5,000 jobs.

Carl Sonnen, President of Informetrica, discussed his analysis of the macro impacts of a new fiscal regime. In his work, Sonnen employed projections provided by the Task Force of a $700 million (1994 dollars) annual average increase in oil sands investment spending from 1997 to 2017 under a new fiscal regime. He estimated employment effects of 45,000 additional jobs by 2017. Transfer payments would decline and earned income increase. There would also be a large reduction in foreign indebtedness over the period due to the improved net export position. Regional impacts would be large and very positive compared with rather small but positive national effects. For Alberta he described the effects as 'strategic' in size amounting to about twice the effects that the FTA was estimated to create. He emphasized that his analysis employed a very conservative multiplier attributable in large part to the presumption of high import content in capital formation: 1.1 in the early phases, and 1.0 thereafter.

The results of his modelling indicate that government balances improve by increasingly large amounts over time with balance accruing to governments over the period through 2020 amounting to $68 billion (1994 dollars). In the period from 1996 to 2002 the effect of the new regime would be an increase to the federal deficit by $7 million a year, or a total of $63 million ($47 million of which is a federal loss) which can regarded as trivial. He stated that it would be hard to find a project with this degree of cumulative positive effects on government revenues. At the same time even a small deficit increase in the first few years of the new regime would, under present circumstances, be cumbersome for the government to overcome. Government could represent this initial small deficit as a 'blocker' to what otherwise would be sensible 'go' decision.

More generally, Sonnen regarded the expansion of the oil sands in response to a new fiscal regime to be a growth generator of major magnitude with a very large potential pay-off. He saw few equally promising opportunities. Oil sands expansion would be incremental to economic activity. He acknowledged that the move to a new fiscal regime could be designated as a tax-expenditure, and the prevailing government view is against more of these. However, Sonnen stated that the quality of choice in a proposed tax-expenditure cannot be ignored. The public trust dimension of a choice is substantial. The magnitudes of the impact may, of course, be in dispute. However, he regarded the assumptions presented by the Task Force Report to be of high quality and supported by the fact that the product is an export commodity, and oil sands companies possess a proven track record in reducing unit costs. For Sonnen, the only issue should be the structure and the long term consequences of the new fiscal regime.

David Laughton reported on simulations under the terms of a proposed new fiscal regime (25% RRR, a 2% premium over the long bond rate for negative accumulations, and a 100% capital cost allowance). For the simulations he used production and cost information provided by the Task Force. Comparisons then were made with results for existing *ad hoc* regimes, and the proposal of Bradley (cash flow with a minimum royalty payment).

He considered a number of issues arising from the simulations. These included the timing of expansion, the handling of a transition from the existing to a new regime, the design of the regime, and valuation questions. The valuation questions included some at the project level, and some external to the oil sands. At the project level, assessing the impacts of a new regime requires decisions regarding the types of projects on which simulations should be run. In matters external to the project, assumptions about the level and the degree of stability in oil and gas prices must be adopted. He pointed out that the discount rate to be employed is sensitive to both the structure of financial markets and the structure of the projects. This would suggest separate discount rates for each project simulation rather than applying a uniform rate. With respect to the discounting of revenue and royalty flows, he questioned whether Alberta taxpayers are any less risk averse than international investors since taxpayer preference is probably for a fiscal structure that produces some revenue up front.

A panel consisting of **Dianne Keefe**, Manager Economics and Forecasting, Canadian Utilities Ltd., **John Livernois, Stephen Mullie**, Vice-President of Wood Gundy Inc., and **David Walker M. P.**, Parliamentary Secretary to the Minister of Finance commented on the presentations of Hyndman, Sonnen and Laughton.

Dianne Keefe agreed that the oil sands development would have a very positive impact on the Alberta and the Canadian economy. She believed feasible the output of 1.2 million barrels projected by the Task Force Report. Canadian Utilities' models agree that a capital requirement of $20-25 billion (1994 dollars) would be necessary to increase production to this level.

Keefe feels that Sonnen's report underestimates the macro impact on Alberta. Her estimate is that the expansion would generate between 15 and 25 thousand direct jobs and 40 to 75 thousand jobs in total. In her scenario, it would be necessary to allow for in-migration to Alberta of 50 to 75 thousand. The effect is that the economy would be 6-7% larger than it would have been in the absence of oil sands development. She estimates the cumulative impact on Alberta's fiscal balance to be in the $30-35 billion range compared with Informetrica's estimate of $34 billion.

John Livernois found the Task Force results on the impact of alternative fiscal regimes to be solid. He agreed that the same discount rate should be applied to the Alberta taxpayer as well as to industry revenues and costs, not differing rates as used in the Task Force Report. He also agreed with Laughton that the chosen discount rate should be project- and market-specific. He also commented on the effects of the full deductibility of royalties versus the use of the resource allowance on corporate income tax liability.

Stephen Mullie emphasized that the oil sands must compete for funds with international investment opportunities in conventional oil and gas activities. One of the implications of the Task Force Report is that a reduction in uncertainty would obviously help attract capital to the oil sands. He pointed out the need for a higher required return to oil sands projects because they have high operating costs relative to conventional energy, and hence there is increased risk because of volatility in commodity prices. A gross royalty regime exacerbates that volatility while a generic royalty and tax regime does not.

Mullie also commented on the state of oil sands science and technology. He pointed out that the capital costs of a project are influenced by the state of technology. He found these very large up-front capital costs somewhat analogous to finding costs in the conventional industry. The capital investment needed for an oil sands project, he found to be too high at present to make sense in the conext of competing investment opportunities. Hence, for projects to go, the up-front costs have to be reduced.

David Walker, while expressing interest in the Task Force proposals, was also cautious because the suggested generic regime is a demand placed on the country's fiscal framework. The approach must be to weigh the short term loss of income against the gain from long term economic success. He pointed out that the federal government views the request for a new fiscal regime as a request for a tax expenditure. In a world of deficits, any tax expenditure represents a change in cash borrowing needs. The federal government will make an exception from its enunciated fiscal framework only when the benefits of a project directly contribute to the long run fiscal stability of the national government. Through partnership with industry, the federal government needs to fully understand what is required. This can be summarized as a need to answer the question: 'why is the government borrowing the money and not the private sector?'

CLOSING REMARKS

The Conference was closed by **Eric Newell**, President, CEO and Chairman of the Board of Syncrude Canada, Ltd. He emphasized that the oil sands is a key competitive resource for Canada, one that offers an answer to our energy needs, and one requiring patience and determination in development. The present provides a 'window of opportunity' in the face of declining conventional production. Projects presently on the drawing board are waiting to proceed but fiscal terms require negotiation. This lack of fiscal certainty raise doubts about contingencies and makes planning difficult.

Newell acknowledged concern about how the introduction of a new fiscal regime might impact on government deficits. Because deficit reduction is essential, there is a need to bridge in any generic regime without dysfunction to government revenue flows. He expressed confidence that a new regime could be worked out and implemented with regard to the interests of all parties.

FEEDBACK FROM CONFERENCE PARTICIPANTS

Useful small group sessions brought forth a number of comments. These included:

- stated preference for a cash flow royalty system;
- the need for a better articulated base case scenario in the report on macro impacts;
- elasticity of the supply of projects to the fiscal regime and to the price of energy;
- the importance of fully expensing capital expenditures since present arrangements inhibit projects from going forward;
- high Canadian tax positions may be offset by high geologic quality and low political risk;
- concern about the transition arrangements in moving from existing tax and royalty arrangements to a cash flow basis;
- the importance of an internationally competitive tax regime;
- whether government is picking a winner by singling out oil sands developers for "special treatment";
- the possible effect of a cash flow tax on the timing of investment.

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