

JUN 04 2014



Ref: 85090

The Honourable Joe Oliver, P.C., M.P.
Minister of Finance
Government of Canada
House of Commons
Ottawa, ON K1A 0A6

Dear Minister Oliver:

Thank you for meeting with me in Ottawa on March 31, 2014. I was pleased to be able to congratulate you in person on your appointment to Minister of Finance.

As you are aware, British Columbia is aggressively pursuing the creation of a new liquefied natural gas (LNG) industry that has the capacity to generate enormous economic benefits for the people of British Columbia and Canada over the next 40 years. The window of opportunity to capture a share of the growth in Asian LNG demand is currently open to us; however, Canada needs to out-compete other countries to ensure it maximizes its share of this market opportunity.

To this end, I am writing to re-iterate the Province of British Columbia's support of the submission from the Canadian Association of Petroleum Producers (CAPP) for a change in the tax treatment of LNG liquefaction facilities in the federal 2015 Budget. Treating LNG facilities as a manufacturing and processing facility with a tax category of Class 43 (30 percent declining balance) provides consistency with other natural gas processing facilities, but more importantly, it will make Canadian LNG facilities more competitive in the global LNG race. A positive response to the CAPP proposal will help spur final investment decisions for LNG plants on the West Coast, so that Canada can become a major global LNG competitor.

I view the CAPP proposal as beneficial to our collective interests and I hope you are able to incorporate this change in your upcoming budget.

Thank you for your attention to this issue.

Sincerely yours,

Rich Coleman
Minister & Deputy Premier
Pc: Honourable Greg Rickford

Minister of
Natural Gas Development
and Minister Responsible
for Housing
and Deputy Premier

Office of the Minister

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Page 2 redacted for the following reason:

s.13

**MINISTRY OF NATURAL GAS DEVELOPMENT AND
MINISTER RESPONSIBLE FOR HOUSING
LNG TASK FORCE
ESTIMATES BRIEFING NOTE 2014/15**

ISSUE: LNG Taxation Framework

KEY MESSAGES:

- We are taking concrete steps to realize significant increases in provincial government revenues as a result of LNG.
- We continue to develop and implement all the elements of a competitive tax and policy environment for LNG – this work involves extensive consultation with industry.
- One component of this competitive tax environment is an income tax applicable to the LNG industry – legislation will be introduced later this year to bring this into effect.
- The LNG income tax will be a two-tier income tax with a Tier 1 rate of 1.5 per cent and a Tier 2 rate of up to 7 per cent (final rate to be determined and confirmed in legislation).

BACKGROUND:

- The Ministry Natural Gas Development has worked with the Ministry of Finance to design the new LNG income tax which will generate revenues that should accrue to the Province as the owner of the underlying natural gas resource, while ensuring BC remains the most competitive jurisdictions for LNG development.
- Extensive consultations with industry have and continue to take place, to gain valuable feedback and provide as much certainty to proponents as possible as they approach Final Investment Decisions.
- Government had established the following objectives for a new provincial taxation regime for LNG:
 - Maximizes provincial revenue;
 - Simple, stable and predictable tax regime that is fair to all proponents;
 - Maximizes likelihood of new LNG investments in BC;
 - Competitive with other jurisdictions
- LNG Taxation Next Steps:
 - Introduce legislation establishing the LNG Income Tax later this year;
 - Continue consultations with proponents; and,
 - Prepare to engage federal government.

s.12

Tax Update Discussion

May 29, 2014 – 9:00AM to 10:15AM

Location: Peter Milburn's Office, Room 109 - 617 Government Street

Attendees: DM Steve Carr, DM Peter Milburn, Paul Flanagan, Brian Hansen

AGENDA

1. Update on Tax Elements

a. Review of Tax Policy Decisions

i. GHG, Ambient Air, Interest Deductibility, Royalties, CIT

s.13, s.16

BRITISH COLUMBIA'S COMPETITIVE FRAMEWORK: LNG INCOME TAX

British Columbia is committed to providing the liquefied natural gas (LNG) industry with certainty regarding the tax and policy environment for LNG development in British Columbia. An independent analysis of current fiscal frameworks in other jurisdictions involved in LNG project development shows that British Columbia provides a competitive environment.

The government of British Columbia is actively working with the LNG industry to develop a competitive tax and policy environment that will facilitate the development of a robust LNG industry in the province.

As part of this work, the government of British Columbia intends to introduce an LNG Income Tax in the fall of 2014. In developing the tax, the province sought industry input. The details of the LNG Income Tax will help to provide added certainty for proponents as they work toward making final investment decisions.

The LNG Income Tax will be a two-tier income tax. The tier one rate is 1.5 per cent, while the tier two tax rate will be up to 7 per cent, with the final tier two rate to be determined and confirmed in legislation. To ensure that the tax rate remains competitive, the tier two rate will be reviewed until the legislation is introduced. The government of British Columbia will factor global and local economic conditions into the final tier two rate.

The tier one rate of 1.5 per cent will apply to a LNG operator's net proceeds – the calculation of revenue less expenses – once commercial production begins. The amount of tier one tax that has been paid by the operator can be deducted from the tier two tax. The tier two tax rate will not apply until the project's capital investment account has been depleted.

FOUR PRINCIPLES OF LNG INCOME TAX

The tax is based on four core principles for a fair and balanced approach:

- Fair return for British Columbians
- Competitive jurisdiction
- Predictability for proponents
- Consistent treatment of proponents



To illustrate how the proposed LNG Income Tax works, assume a new LNG plant in British Columbia produces 12 million tonnes per year (MTPA) of LNG and earns constant profits over 10 years. Assuming that commercial production of LNG starts in year one, for the first three years, the tier one tax rate of 1.5 per cent applies. In year four, once the proponent's capital investment account has been depleted, the tier two rate will apply. The amount of tier one tax paid during the first three years can be used as a credit against the tier two tax in years four and five. From year six onward, the full tier two tax rate will apply, as the credits for taxes paid in earlier years will have been used.

The LNG Income Tax will be applied to income from the liquefaction of natural gas, which includes income generated from the sale of LNG; rents and fees payable for the use of a LNG facility; and fees for processing natural gas at a LNG facility. It will apply to all LNG facilities in the province, regardless of whether the natural gas produced is for export or domestic use.

The government of British Columbia anticipates that key components of the LNG Income Tax, including tier two tax rates and specific features, will be introduced in fall 2014. The remaining components, which include administration and enforcement, are planned for introduction in 2015.

BRITISH COLUMBIA'S LNG INCOME TAX:

- Tier One: 1.5% tax rate applies to an operator's net proceeds after commercial production begins. The amount of tier one tax paid can be deducted from the tier two tax.
- Tier Two: Tax rate of up to 7%. This rate will apply after the capital investment account has been depleted.



FOR MORE INFORMATION:

About LNG
LNGinBC.ca

Contact Us
LNGinBC@gov.bc.ca

Ferguson, Susan M MEM:EX

Subject: FW: Follow up from July 14 Meeting
Attachments: 14 07 16_CSTC ltr to Premier Ministers.pdf

From: Victoria Austin [<mailto:vaustin@cstc.bc.ca>]
Sent: Wednesday, July 16, 2014 2:00 PM
To: OfficeofthePremier, Office PREM:EX; Minister, MNGD MNGD:EX; Minister, ABR ABR:EX
Cc: 'Terry Teegee'; vaustin@cstc.bc.ca; 'Grand Chief Edward John'; 'Chief Wilf Adam (Opat)'; 'Grand Chief Stewart Phillip'; regionalchief@bcafn.ca; Grant, Wade PREM:EX; Doyle, Dan PREM:EX; Campbell, Carolyn ABR:EX; s.22 Harper, Katie MNGD:EX; 'Chief Karen Ogen'; bberland@cstc.bc.ca
Subject: Follow up from July 14 Meeting

Dear Premier Clark, Minister Coleman and Minister Rustad,

Attached is a letter from the Carrier Sekani Tribal Council. Please contact our office for further follow-up.

Respectfully,

Victoria for **Tribal Chief Terry Teegee**

Victoria Austin
Executive Assistant
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CARRIER SEKANI TRIBAL COUNCIL

July 16, 2014

Sent Via Email and Fax

Premier Christy Clark, Province of British Columbia

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Fax: 250-387-0087

Minister Coleman, Deputy Premier and Minister of Natural Gas Development

Email: MNGD.minister@gov.bc.ca

Fax: 250 953-0927

Minister John Rustad, Minister of Aboriginal Relations and Reconciliation

Email: ABR.Minister@gov.bc.ca

Fax: 250 953-4856

RE: Follow up from July 14 Meeting

Dear Premier Clark, Minister Coleman, and Minister Rustad

The Carrier Sekani Tribal Council Chiefs and Lake Babine Nation representatives would like to thank you for meeting with us on July 14. We all felt it was a productive and informative meeting. s.13, s.16, s.17

s.13, s.16, s.17

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July 16, 2014

CSTC to Premier Clark, Minister Coleman, and Minister Rustad

Re: Follow up from July 14 meeting

s.13, s.16

We look forward to continuing a mutually beneficial relationship based on our Natural Resources Protocol. Please contact my office to arrange for our next meeting in September.

Respectfully,

CARRIER SEKANI TRIBAL COUNCIL



Tribal Chief Terry Teegee, RPF

cc Chief Wilf Adam – Lake Babine Nation
 Chief Karen Ogen – Wet'suwet'en First Nation
 Grand Chief Ed John – First Nations Summit
 Grand Chief Stewart Phillip – Union of BC Indian Chiefs
 Regional Chief Jody Wilson-Raybould – BC Assembly of First Nations