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Published By: NEWS COMMUNICATIONS since 1977

Saturday October 25th, 2014

B.C. SETS LNG TAX AT 3.5%, HALF OF WHAT WAS ORIGINALLY PLANNED

LNG tax was initially planned at seven per cent; eliminating provincial debt could now be 15 years behind schedule

The British Columbia government climbed down from its proposed goal of a seven per cent income tax on liquefied natural gas (LNG), earning praise from the industry, but forcing the finance minister to admit an election promise to eliminate the debt could be 15 years behind schedule.

Mike De Jong said the Liquefied Natural Gas Income Tax Act reflects the plan he announced in February's budget, but LNG prices are declining and increasing construction costs prompted the government to reduce the preliminary tax rate to 3.5 per cent.

The minister said the lower LNG tax rate is more attractive to potential investors.

"The market has changed," said de Jong.

He suggested a massive LNG purchase agreement by China



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for Russian natural gas also influenced the LNG tax structure.

B.C. believes its major LNG customer will be China.

"Here we are in October with a comprehensive legislative package that will ensure everyone, the public,

the shareholders of British Columbia, and the proponents themselves know what the rules of the game are going to be with respect to the LNG income tax," de Jong said.

B.C.'s Liberal government has pinned much of its economic

future on developing a home-grown LNG industry.

Premier Christy Clark has said LNG is a generational opportunity that could create 100,000 jobs and represents a trillion-dollar economic opportunity.

De Jong said there are



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currently 18 potential LNG projects in the works in B.C. But he was forced to defend the potential returns of the LNG tax structure, especially since the Liberals were re-elected in May 2013 on promises to eliminate the debt with money earned primarily with LNG tax dollars placed in a Prosperity Fund. Government documents announcing the income tax made no mention of the Prosperity Fund. "We set some targets," de Jong said. "Might it take longer? Sure, the market's changing, but it's still very much in my mind an achievable goal. If it takes an extra 10 or 15 years to pay down to the extent we'd like, or eliminate our debt, I'll take that. That's, in my view, worth pursuing." The new tax starts in 2017 at a rate of 1.5 per cent and rises to 3.5 per

cent, with another increase to five per cent in 2037, once the industry plants roots in the province, he said. The tax also includes a corporate income-tax credit available to LNG companies that establish permanent bases in B.C. The credit, an attempt to attract new corporate income-tax revenue to B.C., could drop to eight per cent from 11 per cent for LNG companies, de Jong said. The LNG Alliance, which represents seven major proponents, including Shell Canada Ltd., Chevron Corp., British Gas and Petronas, said the reduced income tax is a compromise that was necessary in a declining market. Alliance spokesperson David Keane said the 3.5 per cent tax provides investors with certainty and may

drive final decisions, but he could not speak for individual companies. "The government recognized that we are in a competitive industry and if we are going to achieve success and achieve a viable industry in B.C. then we have to work together, which means we both have to move," he said. Opposition New Democrat natural gas development critic Bruce Ralston said the Liberals have backed down considerably on their original tax plans. He said it could take a lifetime to pay down the debt on de Jong's revised schedule. "They backed down dramatically and we'll see whether they backed down enough to suit the companies that are pressing them," he said.

Last February, de Jong said the preliminary version of the LNG income tax would be 1.5 per cent at the start of production, and the second tier would rise to seven per cent once plants were running and capital costs were deducted. But he also indicated seven per cent was at the top of the tax range. De Jong said one mid-sized LNG plant will pay about \$800 million in taxes annually under the new rules, an amount equivalent to the taxes B.C.'s entire forest industry pays in one year. He said one plant, producing 12-million tonnes of LNG annually, will pay taxes of \$8- to \$9 billion over 10 years. Environment Minister Mary Polak introduced emissions-control legislation this week that



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forces LNG companies to meet benchmarks that she says are the most stringent in the world.

**BANK OF CANADA
EYES CHEAP OIL'S
EFFECT ON CANADIAN
ECONOMY**

The Bank of Canada's latest read on the national economy is expected to explore a pressing question Wednesday: How much are low oil prices affecting the country's bottom line?

Canada's oil capital has seen long-term busts before — and knows they can cause wounds in everything from property values and employment to government finances. Read on

The price of oil recently hit a two-and-a-half year low, a sharp fall that is prompting Canadian policy-makers and the corporate world alike to reflect on the potential risks of lower prices.

The central bank has indicated it would attempt to measure the impact of tumbling prices in its quarterly monetary policy report, scheduled for release on Wednesday.

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The assessment will come at a crucial time.

Some economists have warned the federal government will have to weigh potential pitfalls of low oil prices before it makes final decisions on the tax cuts it aims to introduce before next year's election.

The effect of low oil on the pace of extraction and investment is also on the minds of federal and provincial policy-makers, since important portions of the Canadian economy are connected to activity in the oil patch.

Economists like Jimmy Jean of Desjardins Economic Studies expect the bank's take on the pros and cons of low oil prices to be a one of the most-closely examined elements in Wednesday's report.

"Most definitely it's something that's going to be watched," Jean said.

"I'm pretty sure that they've tested various assumptions on oil prices and checked what the impact would ultimately be on Canadian growth — what kind of scenario would be highly adverse to the Canadian economy."

He said the Bank of Canada's conclusions on the subject will be particularly interesting because of the considerable research resources and models it has at its disposal.

A closer look at the effect of oil prices could also attract the federal government's attention.

Finance Minister Joe Oliver has maintained the Harper government will live up to its tax-cutting pledges despite the drop in oil prices. The government maintains it will table a surplus in next year's budget, ahead of the election.

Bank of Canada Governor Stephen

Poloz has said it's not easy to gauge how much the price of oil influences the Canadian economy.

An assessment, he added, would have to factor in a judgment call on how long the trend might last, and weigh all the negative and positive variables.

Poloz noted how lower prices also mean higher disposable income for consumers.

The central bank will also release its latest interest-rate decision Wednesday, but BMO Chief Economist Douglas Porter said the trend-setting rate is not expected to change, even though the economy has seen better-than-expected domestic growth and an uptick in inflation.

"Those two items as a stand-alone would suggest the bank might be more inclined to raise interest rates, but that's been washed away by the big drop in oil prices and growing concerns over the global economy," Porter said of the rate, which hasn't budged in four years.

"I don't think there's any debate about what they're going to do with interest rates."

Porter said he will also watch how Poloz addresses the issue of core inflation, an index closely followed by the central bank.

He said an earlier central bank projection had core inflation staying below two per cent until the second half of 2016 and then it hit 2% this year.

"It'll be interesting to see if they will that as temporary and I suspect they will," said Porter, who predicted

the focus of the bank's concerns to highlight the ongoing external factors that threaten Canada's economy.

LNG TAX IN NOVA SCOTIA COULD BE ONLY A MATTER OF TIME

The Nova Scotia government has opted not to get into a tax fight with developers of several proposed liquefied natural gas projects in the province.

I was told Monday by a spokesman for the Finance Department that Nova Scotia has not considered applying a special levy on LNG exports in this province despite what may be happening in other jurisdictions in Canada.

But the industry in Nova Scotia is still in its infancy.

The creation of export facilities on both coasts has been promoted as a job creator and a revenue windfall for the respective governments.

At the same time, proponents are pushing hard to get their projects operational to take advantage of markets in Asia that will begin to open up at the end of this decade as supply contracts expire.

The process is both long and complicated from engineering and regulatory perspectives.

The Liberal government in British Columbia, meanwhile, unveiled a proposed two-tiered tax structure in February that set off alarm bells in corporate board rooms.

It called for liquefied natural gas exporters to pay 1.5 per cent in taxes until the initial capital investment is recovered, and then the rate would rise to seven per cent.

Developers have announced plans for 17 projects in British Columbia, and at least one has expressed concern about the special tax.

Although it is also facing regulatory and environmental pressures, Malaysian state-owned oil company Petronas has threatened to walk away from its proposed \$36-billion Pacific Northwest project partly due to the tax.

The government in B.C. is set to unveil the official version of its proposed tax Tuesday. But Premier Christy Clark has dismissed the Petronas threat as little more than a negotiating tactic.

Liquefied natural gas has been cooled to -162 C, at which point it becomes a liquid, allowing it to be transported more easily. But getting to that point is complicated and costly.

There are three announced LNG projects in Nova Scotia.

In Guysborough County, Pieridae Energy Ltd. plans to build a facility in Goldboro with an export capacity of 10 million tonnes per year. H-Energy, a division of India's Hiranandani Group, plans to build a 4.5-million tonne per year facility in nearby Melford.

Mark Brown, director of project development for Pieridae Energy, said in an email Tuesday that the company has not had any discussions with the province regarding a tax, "but we anticipate that we will

continue to have discussions with the province on various project-related topics, including taxation."

In the meantime, Brown says Pieridae is focused on more fundamental aspects of its project, such as front-end engineering and design, commercial arrangements and permitting.

On the other side of the Strait, Liquefied Natural Gas Ltd., a subsidiary of an Australian company, has plans for a two-million tonnes per year plant in Bear Head, Richmond County.

John Godbold, project director of Bear Head LNG, told a gathering of Cape Breton business leaders this month that he is aiming to be exporting by 2019, making it one of the first LNG exporters in Canada.

Depending on how the B.C. proposal on exports is received, it should be interesting to see how long Nova Scotia will be able to resist applying a similar tax.

BECHTEL BUILDS BILLION-CUBIC-FOOT LNG TANK

Bechtel has begun construction work to expand a liquefied natural gas (LNG) plant in Canada, including building a new one-billion-cubic-foot full-containment storage tank.

The engineering, procurement, and construction contract at FortisBC's Tilbury LNG facility in British Columbia will add approximately 46,000m³ of LNG storage. It will increase the plant's liquefaction

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capacity to 1,740m3 per day to meet the growing LNG demands of the transportation sector, remote communities and industry in British Columbia. Bechtel also is responsible for the startup and commissioning of the new liquefaction facility.

"This is an important project for the region, and we will draw upon our global LNG experience to safely and successfully expand the Tilbury facility," said Jack Futcher, president of Bechtel's Oil, Gas & Chemicals business unit.

Construction is planned to be completed in November 2016.

CANADIAN OIL PATCH VETERAN MAYANK ASHAR NAMED CHIEF OF CAIRN INDIA

A Canadian oil patch veteran is the new chief of one of India's largest independent oil companies. Cairn India Ltd. announced Tuesday that it had hired Mayank Ashar as the company's new managing director and CEO.

Mr. Ashar is a long-time Canadian oil patch executive and has held senior positions with BP, Petro-Canada, Suncor Energy Inc. and, most recently, New Brunswick-based Irving Oil Ltd., where he was president and CEO.

Cairn had been on the hunt for a new CEO since former interim chief P Elango resigned in May of this year. Mr. Ashar's appointment to the company's top job is subject to board and shareholder approvals – though the company is controlled by Vedanta Resources.

Vedanta's deputy chairman Navin

Agarwal is also Cairn India's chairman and gave Mr. Ashar an endorsement when announcing the Canadian's appointment, citing Mr. Ashar's "strong track record" of building value at the companies where he has worked.

WALL ST. ENDS LOWER AFTER SHOOTING AT CANADIAN PARLIAMENT

U.S. stocks erased earlier gains to close lower on Wednesday as a shooting at the Canadian parliament unnerved investors, Boeing and Biogen sold off following results, and energy stocks fell along with oil prices.

Indexes had traded in positive territory for much of the session, putting the S&P 500 on track for a fifth straight day of gains. Earnings initially drove the move higher, with technology and material shares up on the back of strong results.

Market benchmarks began drifting lower after the government reported a surprise increase in crude oil inventories. Energy shares .SPNY were off 1.7 percent as crude oil CLc1 fell, settling near \$80 per barrel.

Canada's capital was jolted by the fatal shooting of a soldier and an attack on the parliament building in which gunshots were fired outside a room where Prime Minister Stephen Harper was speaking. Toronto stocks fell 1.6 percent, also affected by oil's slide.

"The situation out of Ottawa hastened the decline a bit, but I think it started with oil because people are very concerned about global growth," said John Canally, chief economic and investment

strategist for LPL Financial. If the Ottawa shooting is related to domestic terrorism, Canally added, "it'll put weight on the markets along with global growth."

The Dow Jones industrial average .DJI fell 153.49 points, or 0.92 percent, to 16,461.32, the S&P 500 .SPX lost 14.17 points, or 0.73 percent, to 1,927.11 and the Nasdaq Composite .IXIC dropped 36.63 points, or 0.83 percent, to 4,382.85.

Weaker oil and the Canada violence offset some encouraging economic news. U.S. consumer prices rose 0.1 percent in September as energy costs fell broadly, painting a weak inflation picture that could give the Federal Reserve room to keep interest rates low.

Among the day's earnings movers, Biogen Idec (BIB.O) fell 5.4 percent to \$309.07 after sales of its multiple sclerosis drug, Tecfidera, fell short of lofty expectations.

Boeing Co (BA.N) lost 4.5 percent to \$121.91, giving back most of the gains from the four prior sessions. Boeing reported higher-than-expected earnings and lifted its outlook, but analysts raised concern about the

costs of the 787 Dreamliner.

On the upside, Yahoo Inc (YHOO.O) and Broadcom (BRCM.O) rallied a day after both tech companies reported better-than-expected revenue.

Broadcom shares climbed 5.5 percent to \$39.37 while Yahoo was up 4.5 percent at \$41.99. The two made up the S&P 500's top percentage gainers.

After the close, revenue at Dow component AT&T (T.N) fell short of analyst expectations and shares were down more than 2 percent.

Declining issues outnumbered advancers on the NYSE by 2,138 to 928, for a 2.30-to-1 ratio on the downside; on the Nasdaq, 1,988 issues fell and 701 advanced.

The benchmark S&P 500 index posted 44 new 52-week highs and 1 new low; the Nasdaq Composite recorded 54 new highs and 35 new lows.

About 7 billion shares changed hands on U.S. exchanges, below the 8.3 billion October average, according to BATS Global Markets.

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