

The recent announcement by the Canadian Finance Minister, Mr. James Flaherty, to rescind the flow-through taxation status of publicly-traded energy trusts in Canada could result in serious repercussions to U.S. energy needs. This action – in direct contravention of an earlier pledge by the Conservative government to maintain the tax status of the trusts – has already cost the energy sector many billions of dollars but the real cost might be the loss of exploration, drilling and pipeline expansion that could dramatically reduce available natural gas for export to the U.S.

We are well aware of the fact that the U.S. requires oil and gas imports to make up the shortfall between our domestic production and consumption. Over the past year, Canada has overtaken Mexico and Saudi Arabia has our number one supplier of oil and is also our largest source of foreign natural gas supplies. There is no dispute that the U.S. is in favor of continuing petroleum product trade with our closest neighbor, as it is in our best interests to have a stable supply of energy resources from an exporter who supports our democratic ideals and is closest to us in both proximity and culture. It is, in fact, a matter of national security that we maintain good relations with all oil and gas exporting countries to ensure our access to supplies of energy resources so critical to our way of life. Furthermore, it is essential that U.S. capital and expertise in developing petroleum assets be freely available to those trading partners possessing oil and gas reserves so that they will have the resources to properly develop and produce their hydro-carbon properties.

The long-term effect of shrinking capital investment might result in a number of outcomes unfavorable to the present oil and gas trade between our two countries. One result might be that Canada's natural resources will not have the capital required to adequately develop some of the more costly oilfields. Another more troubling result might be that other foreign investment takes control over the ownership of Canadian oil and gas properties to the exclusion of the U.S. It would be a sad scenario to imagine that our closest neighbor – a neighbor that has some of the largest oil reserves in the world – might not be in a position to provide us with our much-needed supplies of imported oil and gas. Even more troubling would be to have a situation similar to what Ukraine experienced with Russia last winter when gas supplies were arbitrarily cut off during the peak demand period.

We are not disputing Canada's sovereign right to change the way in which the federal government collects its tax revenues from businesses and individuals. A newly elected governmental administration often does make changes to the taxation process in an effort to manage the fiscal affairs of its country according to the platform upon which they won the election. The fact that this administration is not honoring its own pledge to maintain the trust status causes us to wonder whether or not the U.S. can expect similar vicissitudes on issues directly concerning our foreign relations. We firmly believe that this issue is not simply an internal one. There are foreign policy and national security issues that may be impacted in this world of accelerated competition for world-wide energy supplies.

Therefore, we implore you to bring to bear your influence upon all Canadian government officials to consider the negative impact on their petroleum industry that these changes will cause. Make them understand the importance of U.S. capital for the further development of their natural resources and to ensure that the U.S. will always be a ready, willing and able trade partner for all of their petroleum products. We must ensure that we don't lose access to Canadian energy supplies because some other country that may not be aligned with us, has secured those assets for themselves. We must ensure that Canada understands the importance of attracting U.S. investment in their energy resources so that they can continue to expand their efforts. Make them understand that as long as our capital is encouraged to invest in Canadian oil and gas trusts, the people of Canada will benefit from additional revenues that will flow to them as a result. Make them understand that a unilateral decision to completely reverse policy in such a way as to punish investors is not in their long-term best interests if they want to continue to expand their capital markets. It is only by continued expansion of capital markets that a government can expect a stable and increasing source of tax revenues. For further information on this issue, please see the Canadian Association of Income Funds website at <http://www.caif.ca/>