

Ms. Judy Wasylycia-Leis
Member of Parliament
710 Justice Building - House of Commons
Ottawa, Ontario K1A 0A6 Canada

February 15, 2007

Dear Ms. Wasylycia-Leis,

I listened to the web cast of the Finance Committee hearings earlier this week and would like to take this opportunity to follow up with you on the issue of income trust taxation. As a long time investor in energy securities (especially, Canadian Energy Trusts and U.S. Master Limited Partnerships), I agree with your contention that many investors fail to understand the return **on** capital vs. the return **of** capital when evaluating investment in these flow-through-entities. I also agree with your position that ordinary, non-energy business entities should not be permitted to operate as non-taxable trusts. However, I do believe that certain energy sector companies should be allowed to operate as flow-through-entities for several reasons which I will outline herewith.

First of all, let us remember that the income trust sector was created for the purpose of exploiting Canada's mature natural resources in the Western Canadian Sedimentary Basin. The nature of so-called exploration and production (E&P) companies operating in the "Upstream" energy sector is to explore for new oil and gas fields to replace the reserves that are produced from existing fields. Over the years, mature fields are sold off to trusts so that the E&P company can continue to search for new resources while the trust finances secondary and tertiary recovery techniques to further extract the oil and gas in place within the acquired fields. Energy trusts and the companies that service them (including pipelines and infrastructure companies) rely on the freedom of taxation to further develop precious natural resources. Given the natural depletion of finite energy resources, it is critical to understand the strategic importance of the energy sector to Canada in its role as an oil and gas exporter. But let us not forget that the oil and gas that is produced from these fields is taxed by governmental entities in two ways: first through leases (for those on Crown lands) and secondly through royalties paid to the provincial governments. To the extent that oil and gas royalties are paid at the provincial level, it is important to remember that the revenues this creates for those provinces where oil and gas fields are located diminishes the need of federal funding for said provinces.

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We would do better to carve out a federal royalty on natural resources than to eliminate the trust companies in the energy patch.

In conclusion, I recognize that a sovereign government has the right to tax its citizens and corporations in order to fund the social services it provides. But to slaughter the entire income trust sector would be imprudent. Just as the real estate trust sector was grandfathered, so too should those income trusts operating in the energy sector. It is in Canada's best interests to do so. Thank you.

Yours Truly,

Marvin Gottlieb