

Applying the Accelerated Capital Cost Allowance to All Mining and Resource Processing Investments

Accelerated Capital Cost Allowance (ACCA) has been a feature of mining sector taxation in Canada for decades to encourage investment and value-added processing. Capital cost allowance rules specify the rate at which capital assets can be expensed annually. ACCA allows the normal costs of capital to be deducted as fast as income from the project will allow rather than deferring the deductions over time. As corporations recover their initial investments sooner, ACCA reduces the investment risk associated with the mine or project, thus improving the overall economics of the project.

In the 2007 Federal Budget, Finance Minister Jim Flaherty grandfathered ACCA for oil sands assets in project (both mining and in-situ) phases that commenced major construction prior to March 19, 2007, and announced that for other projects that have begun construction, companies could claim ACCA until 2010, and the rate would be gradually reduced between 2011 and 2015. The timing for this decision was unfortunate. The ACCA for oil sands provided a significant boost for this costly industry and companies had announced investments of \$150-billion in spending before oil prices collapsed. The elimination of the ACCA coincided with a plunge in the price of oil as well as the ongoing threat of significant new costs to combat environmental issues including climate change.

Although the federal government eliminated the ACCA for oil sands, at the same time it introduced an ACCA for investments in manufacturing machinery and equipment. Originally intended to be available for two years, the ACCA for manufacturing machinery and equipment was extended for a further year in 2008 and in response to the economic crisis, last year the federal government extended the ACCA for machinery and equipment for a further two years until 2012. Clearly the government understands the power of the ACCA as an inducement to further investment.

As times remain competitive, ACCA needs to remain in place as a key component of a strategy that encourages investment in resource industries and gives Canada a competitive edge.

As Greenfield projects, new upgraders in Canada are more costly especially with the higher construction (labour and material) costs as well as the need to develop supporting public and private infrastructure. Competing locations in the U.S. (e.g. the U.S. Gulf Coast and the U.S. Midwest) enjoy the benefits of existing infrastructure. They are also shielded from the inherent high cost of transporting heavy barrels through the averaging down of regulated pipeline tariffs based upon depreciated capital invested in pipelines constructed years ago at lower historic costs.

Alberta also has in place a rigorous environmental and socio-economic public interest tests for major energy projects operated through the EUB regulatory process. This process extends the lead-time and up-front costs of projects.

In addition to the uneven playing field created by applying the ACCA to manufacturing machinery and equipment and not oil sands mining and upgrading, the ACCA has not been available for merchant upgraders or for additional value added processing such as petrochemicals and refining.

This means, for example, that some upgraders operating are eligible (those with common ownership and processing feedstock from a particular mine or in situ project) and some are not (those purchasing bitumen on the open market), creating a further disincentive or barrier to investment in upgrading capacity.

However, Alberta's case is not exclusive and many other mining industries, such as those involved in diamond, uranium, nickel mining are capital intensive, face competition from other jurisdictions, and considerable higher operating costs due to labour and regulatory controls. Faced with these challenges, seizing the new economic opportunities will require our governments to implement fiscal policies like the ACCA that encourage rather deter investment.

Recommendations

That the federal government:

1. Retain Accelerated Capital Cost Allowance for oil sands and mining projects in Canada.
2. Extend Accelerated Capital Cost Allowance to resource processing investments, including upgraders/other high conversion capacity investments and shared processing infrastructure, and other resource conversion equipment used in diamond, nickel, uranium and other mining operations.