Canadian Natural

July 15, 2008

Advisory Panel on Canada's System
of International Taxation
Submission
Attention: David Messier
333 Laurier Avenue West, 15th Floor
Via e-mail: advisorypanel@apcsit-gcrcfi.ca
Ottawa, Ontario K1A 0G5

Submission

Dear Sirs:

Canadian Natural Resources Limited is a Canadian based and controlled company with an enterprise value of over $50 billion with operations in Western Canada, the U.K. portion of the North Sea and Offshore West Africa. We are proud to have our headquarters in Canada and conduct the majority of our operations in Canada. While a significant portion of our growth over the past 5 years has been from foreign operations, much of the cash flow from these operations has been repatriated back to Canada to provide financing of our Canadian projects including our $8.7 billion Horizon Oil Sands Project, an oil sands mining development project which will initially produce 110,000 barrels per day of 34° API Synthetic Crude Oil in the second half of 2008 and provide quality long term jobs for Canadians, result in substantial tax dollars for the Canadian government and provide substantial export revenues for Canada.

We have read the Advisory Panel's paper on Canada's System of International Taxation wherein the Panel's mandate, focus and initial views on a framework for developing Canada's international tax policy is set out. We are encouraged by the tone whereby fairness, constructive change, competitive, and simplicity are enunciated.

We were also pleased to read of the Panel's intent to "seek to ensure its recommendations accord with the directions set out" by Canada's Competition Policy Review Panel.

Perspective

In addition we believe your review should also be focused toward:

1. ensuring that Government policy and laws are coordinated to ensure that the Government's stated objective to make Canadian corporations more competitive on a global scale is a reality
2. ensuring that Canadian companies are encouraged to focus their outbound investments with the view that the funds invested will eventually be repatriated to Canada
3. decreasing administrative cost and complexity to an already complex taxation system
4. encouraging repatriation of funds back to Canada and therefore increase potential financing of new projects in Canada, or to make distribution to shareholders in Canada less difficult; and
5. creating a structure whereby foreign operations will continue to be head quartered in Canada, and not outside Canada.

Many elements are required for a Canadian corporation to compete successfully on a global scale. We Canadians are blessed with ample access to North American capital markets and our companies generally have a strong reputation through-out the world. This recognized expertise helps to reduce our cost of capital, enabling companies to successfully bid on assets and projects around the world.

One of the major offsets to this advantage, however, an already complex corporate income taxation system which currently has one of the highest marginal corporate tax rates amongst industrialized nations. While the Government is taking steps to gradually reduce this corporate anchor, so are other nations, reducing the effectiveness of this strategy. Further hampering Canadian corporations by creating an unlevel playing field on barriers to entry such as interest deductibility and complex foreign investment rules only reduces our competitiveness.

Most foreign competitors to Canadian corporations are similarly blessed with low costs of capital, but have the added benefit of governments that encourage foreign investment, even if it includes "double-dip" structures. Ultimately, they will become more successful than Canadian counterparts, and over time, may even take control of our Canadian corporations due to their advantaged situation. We have already seen some signs of this through recent takeovers of Canadian companies and Trusts by foreign owned entities and the recent advent of sovereign wealth funds. Remember the adage that if you are not showing profitable growth you are a takeover candidate.

Generally speaking, absent a financing structure, corporations will borrow in the country with the lowest after tax cost of borrowing. It only follows that Canada would be the logical place for Canadian corporations to borrow. Generally, the parent company would be able to attract debt at a lower rate than a foreign subsidiary, and given the generally higher taxation rates in Canada, this predisposition is greatly enhanced.

As such it is our view that Canadian businesses should be encouraged, not discouraged, to make investments in foreign operations and to utilize our talent and expertise for the benefit of Canadians. The spin-off effect is very real, from attracting the necessary capital, to encouraging related investment locally, to providing a reason for the human asset to remain in Canada. The corresponding benefits, including taxation, is also real. To not take this position is to encourage the transfer of wealth to other nations.

Lastly, the Canadian taxation system is already complex and onerous. Creating additional complexity and requiring further tracking of elements only make it worse and have a high cost associated with them. Some businesses may simply choose to not expand internationally or, if they do, they may choose to do so through a foreign domiciled company rather than a subsidiary of a Canadian corporation. Either way, we effectively shut Canada out of participation in this economic activity. For large Corporations, this represents yet another nuance to the system, requiring even greater administration, taxation and legal advice. If we want to make Canadian companies more competitive we need to help them become more streamlined and nimble, not bureaucratic. From this standpoint we do not believe we need regressive tax policy.

Yours very truly

CANADIAN NATURAL RESOURCES LIMITED

N. Murray Edwards
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Chief Financial Officer