



November 2, 2005

Denis Normand
Tax Policy Branch, Business Income Tax Division
Department of Finance
17th Floor, East Tower
140 O'Connor St.
Ottawa, Ontario
K1A 0G5

Dear Mr. Normand:

Re: Consultation Paper on Flow Through Entities (“FTE”)

We are responding to your invitation for submissions with respect to the Consultation Paper of FTE's. The Department raised four particular issues for consideration and consultation, including:

- the impact of FTE's on federal tax revenues; and
- the impact of FTE tax treatment on the Canadian economy.

With respect to federal tax revenues we encourage you to review certain assumptions made in the Department's analysis. While we will leave this debate to the experts, the hard evidence suggests that the growth of FTE's are a net positive to federal tax revenues. Certainly, Chemtrade's experience detailed below supports this view.

Regarding the effects of FTE's on the Canadian economy, we believe that FTE's confer many benefits including:

- a capital structure that facilitates growth of Canadian enterprises;
- a tool to provide Canadian investors with higher yield than otherwise available;
- enhanced Canadian capital markets efficiency and competitiveness;
- effective allocator of capital; and
- good corporate governance/transparency of financial reporting.

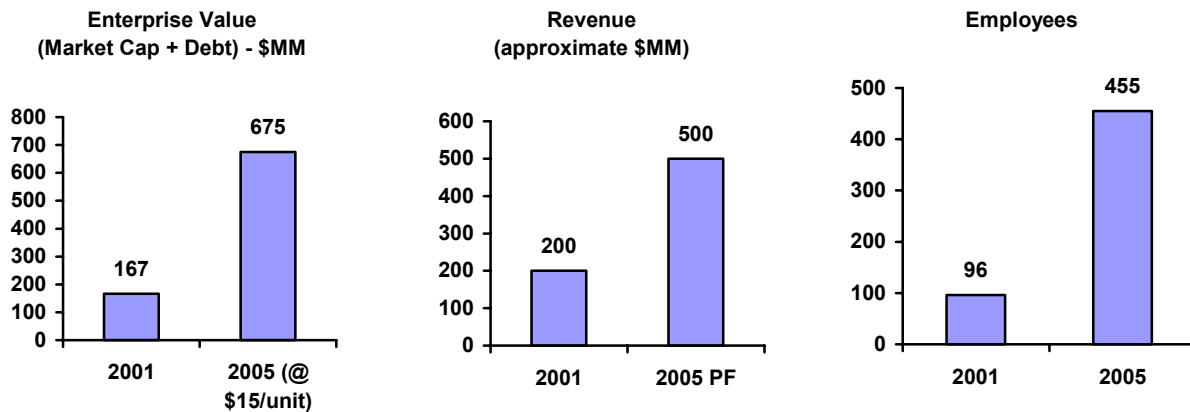
We believe that the trust sector as a whole creates these benefits and as a member of the Canadian Association of Income Funds (“CAIF”) will support their submissions. However, this submission will concentrate on the specific real benefits Chemtrade has provided to the Canadian economy through the FTE structure.

We will address five aspects of the FTE structure.

1. Growth
2. Canadian Ownership
3. Tax Revenues
4. Efficient Allocation of Capital/Productivity
5. Corporate Governance/Transparency of Financial Reporting

1. Growth

The FTE structure provides ready and cost effective access to the Canadian capital market. Small and mid-sized Canadian businesses have not historically had access to this capital. Chemtrade, as an FTE, was able to access the capital markets and thus evolve from a very small participant in the chemical industry to one that has successfully grown and diversified its sources of earnings, customer base, products and geographical coverage. Some of Chemtrade's growth statistics are set out below.



To successfully compete in today's chemical industry a company must have scale and scope. The industry is capital intensive and only large entities have the economies of scale necessary to compete. While Chemtrade is not yet a large player in its industry the FTE structure has let it expand quickly and provides the opportunity to create an international world scale chemical business headquartered in Canada.

2. Canadian Ownership

The FTE structure also provided the opportunity for Chemtrade to remain a Canadian domiciled business. Frequently when Canadians sell businesses they are acquired by non-Canadians. In recent history the U.S. private equity firms have been the most active acquirers of the assets similar to those held by Chemtrade. In fact, at the time of its IPO, a number of U.S. private

equity firms had been pursuing the Chemtrade assets. As the Chemtrade experience shows, the FTE structure can result in Canadian businesses remaining Canadian.

Finally, the same structure facilitates Canadian ownership of businesses outside Canada which, again, were typically not successfully pursued by other Canadian acquirers. In Chemtrade's case we have made four sizable transactions since the IPO. Of these transactions two were in the U.S. and one in Europe. Without the FTE structure we doubt whether any of these businesses would be Canadian controlled or their income streams and growth prospects subject to the Canadian revenue authorities.

3. Tax Revenues

Prior to Chemtrade's IPO as an FTE it was a division of another Canadian corporation. Despite generating significant cash this corporation paid no Canadian taxes.

Since becoming a FTE the cash generated by Chemtrade has been distributed to unitholders a significant portion of which pay tax at the highest marginal rates. Further, the growth outlined above means that our unitholders will receive 3X as much distributable cash in 2005 than was distributed in 2001 (annualized). The vast majority of these distributions are generated by businesses located outside of Canada and are now subject to Canadian tax.

Since inception Chemtrade has distributed over \$134.2 million to its unitholders who are predominantly Canadian residents.

4. Efficient Allocation of Capital/Productivity

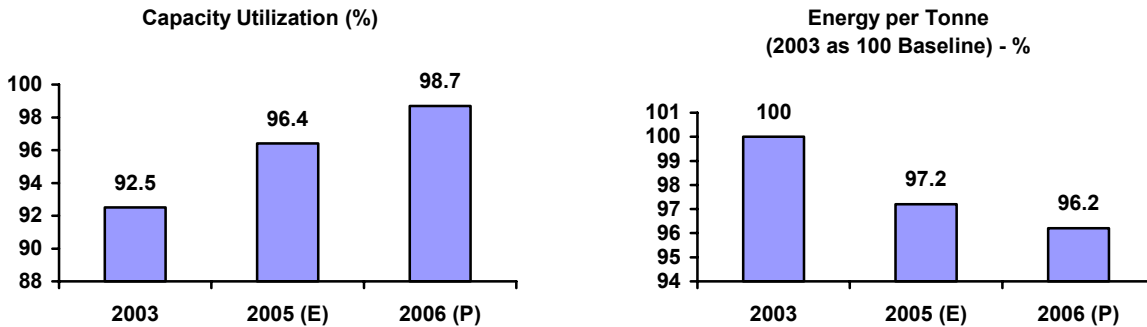
We have three points to make on this topic. First, by providing investors with most of the excess cash flow generated by FTEs investors decide where to reinvest these funds. Investors decide which entities desire their support and where to invest their money. This process results in FTEs' cash distributions being directed to the best or most productive enterprises.

Second, Chemtrade's experience is that every business we have acquired (including the assets that were part of the IPO) were "non-core" assets to the vendor. The FTE structure permitted Chemtrade to acquire these businesses and, in turn, permitted the vendor to deploy the funds received into its core business allowing them to expand, acquire, grow or improve their own productivity.

Finally, productivity is enhanced within an FTE itself. We are surprised at the suggestion that anyone can believe that the FTE structure does not enhance productivity. In Chemtrade's case, businesses that were non-core to the vendor are now core to us. Businesses that were often ignored and starved for capital are now receiving capital and actively seeking opportunities to expand and grow. The discipline of the FTE structure requires management to focus on productivity improvements and very efficient and effective use of capital. Failure for an FTE to do that results in an inability to attract additional growth capital. That is the only way to ensure that the business is sustainable which is a core tenant of a FTE's purpose.

The following are two quick overviews of Chemtrade's productivity improvements. In the first example (Pulp) we acquired a non-core asset from Canfor (another Canadian company) which

permitted Canfor to deploy the proceeds improving its own competitiveness. Since acquiring the business in August 2003 we improved productivity as graphically displayed below.



Second, as we have said, now that Chemtrade has increased in size we have been able to increase Head Office productivity. Although Head Office headcount has increased by 10%, productivity based on revenue per employee has more than doubled.

5. Corporate Governance/Transparency

A final benefit that should not be understated in a world of corporate malfeasance is that FTE's are remarkably transparent vehicles. An investor has a clear picture of each FTE's cash generation and can evaluate the company and its management on that basis. Differences in accounting practices between expense and capital or revenue recognition to generate accounting earnings are only of passing interest. Investors focus and can clearly track the cash actually generated by each FTE its investment.

We would welcome an opportunity to discuss these issues further.

Permission to Post Submission on Website

Permission is granted to post this submission on the Department of Finance website.

Yours truly,

Mark Davis
President and Chief Executive Officer

cc: The Honorable Ralph Goodale
Department of Finance Canada
140 O'Connor Street
Ottawa, Ontario K1A 0G5