2016-2017 Federal Pre-Budget Submission

by

Petroleum Services Association of Canada

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Introduction

The Petroleum Services Association of Canada (PSAC) appreciates the opportunity to provide input into the federal government's 2017 budget consultations. We ask that consideration be given to our recommendation to facilitate job creation while providing environmental and economic benefits.

PSAC is the national trade association representing the service, supply and manufacturing sectors within the upstream petroleum industry. PSAC represents a diverse range of companies that provide continued innovation, technological advancement and in-the-field experience to Canada's energy explorers and producers, helping to increase efficiency, improve safety and protect the environment. PSAC member companies represent a significant portion of the business volume generated in the petroleum services industry.

The oil and gas services (OGS) sector in 2009, contributed over $75 billion to Canadian GDP, paid more than $17 billion in federal and provincial taxes and employed 685,000 people across the country, mostly middle-class, all in addition to the contributions of our customers, the exploration and production (E&P) companies. As well, the rate of Aboriginal entrepreneurs in Canada's oil and gas industry is three times higher compared to the rest of Canada.

The reach and scope of this industry is Canada-wide with the effects of the current oil and gas downturn felt across the country. This is not surprising given for example, that a provincial breakdown on the $75 billion noted above reveals that $7.6 billion and $5.4 billion was attributable to Ontario and Quebec, respectively, demonstrating the extent of manufacturing undertaken and domestic supply chains for oil and gas development across the country. Another example is the number of non-resident workers in Alberta from other provinces in 2014 reaching over 100,000.

Two years of continued low commodity prices have been devastating for this sector in particular, a sector dependent on the capital investment of its customers, the E&P companies, which has plunged a phenomenal $50 billion from $81 billion in 2014 to $31 billion in 2016, a drastic decrease of 62 percent. This has led to severely reduced activity levels which in turn have resulted in tens of thousands of layoffs along with the loss of intellectual capital and expertise that will be required for the future viability of this industry. Indeed, with commodity prices languishing and no end in sight, the very survival of this vital industry is at stake.

Recommendation:

Create a financing vehicle for no-interest or low-interest loans in conjunction with the provinces for decommissioning and remediation of orphan and legacy wells, pipelines and facilities in western Canada. Financing now would leverage low interest rates, low services costs, and abundant labour availability to accelerate a reduction in GHG emissions and beneficial environmental outcomes while creating jobs, retaining skills and expertise, providing economic growth, and alleviating public concerns.

This shovel-ready project would provide jobs to get people back to work right away while enhancing Canada's reputation as stewards of the environment. Often referred to as downhole wellbore abandonment and surface reclamation, this is a process we will refer to as 'well decommissioning' or 'WD'.

'*Orphan'* wells, gas plants, and pipeline segments result from defunct operators, have no identifiable owners and are not assets of current E&P companies however current E&P companies do pay fees into provincial funds established to address these orphaned assets.

'*Legacy'* assets include historical oil and gas wells, plants, pipelines and any other related equipment that was left over from oil and gas development in the 1800s and the first half of the 1900s.

Accelerating the pace of decommissioning of orphan and legacy assets through no-interest or low-interest loans to provincial Orphan Well Funds while services costs are low and workers are plentiful would enhance Canada's environmental reputation, employ Canadians, and also provide spin-off benefits and work to local cafes, motels and other businesses in rural communities, and provide taxes – corporate, income and fuel, to government.

In summary, financing for decommissioning would:

1. Provide much needed jobs for many middle-class workers;
2. Retain skills and essential expertise for responsible oil and gas development in Canada;
3. Prevent or stop methane and other GHG emissions from assets no longer in use;
4. Recover arable land for farmers and ranchers;
5. Improve Canada's environmental performance and reputation;
6. Alleviate public concerns for clean-up of orphan and legacy assets;
7. Expand expertise in decommissioning for export to other countries;
8. Benefit local businesses in rural communities such as cafes and motels;
9. Accomplish more now with skilled labour available and material and services costs lower than during periods of higher activity levels.
10. Generate increased corporate, income and fuel taxes for governments as decommissioning is labour and fuel intensive.

Due to payroll and fuel taxes paid on work and industrial activity that might not otherwise take place, Treasuries would immediately benefit by up to one-third of loan investments directly, and more as the non-taxed income circulates through the economy indicating that much could be gained from even no-interest loans.

An injection of government funds through no-interest or low-interest loans for decommissioning operations would help to sustain this vital sector through this difficult economic time so that it can continue to provide the innovation and technology that Canada is renowned for and relies on for responsible energy development and production. Accordingly, we ask for your consideration of a financing vehicle for no-interest or low-interest loans in conjunction with the western provinces for the decommissioning on orphan and legacy assets.

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