



Partners in Prosperity
2017 Pre-budget consultation process
August 5th 2016

The Canadian Association of Petroleum Producers (CAPP) represents companies, large and small, that explore for, develop and produce natural gas and crude oil throughout Canada. CAPP's member companies produce about 85 per cent of Canada's natural gas and crude oil. CAPP's associate members provide a wide range of services that support the upstream crude oil and natural gas industry. Together CAPP's members and associate members are an important part of a national industry with revenues from oil and natural gas production of about \$120 billion a year. CAPP's mission, on behalf of the Canadian upstream oil and gas industry, is to advocate for and enable economic competitiveness and safe, environmentally and socially responsible performance.

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August 5, 2016

Hon. Wayne Easter
Chair, Standing Committee on Finance
Sixth Floor, 131 Queen Street
House of Commons
Ottawa, ON K1A 0A6

Dear Mr. Easter:

Re: 2017 Pre-Budget Consultations

I am writing today as part of the Canadian Association of Petroleum Producers' (CAPP) official submission to the 2017 pre-budget consultation process.

As you are likely aware, our industry is experiencing the most challenging period since we began collecting data in 1947. Canada's oil and natural gas industry is characterized by regular ebbs and flows of the market, but the current situation has created unique challenges such as a 62 per cent reduction in capital investment within a two year period.

In this trying time, a constructive partnership with the government will contribute to our industry's success, the success of the businesses that work with our industry, and the success of Canadians generally.

We are supportive of the government's intention to invest in Canada and Canadians to stimulate our economy and create growth that benefits all.

We encourage the government to consider our recommendations on market access, investment, innovation, and supporting unemployed Canadians and Indigenous Peoples.

Progress on these items alone will not resolve all of the challenges faced by our industry. We have much to account for on our own. But we believe action on these items will go a long way in ensuring our industry can continue its important role in contributing to the success of the Canadian economy, businesses, and people.

We are prepared to tackle this task hand-in-hand with our elected officials in Ottawa as the government works to implement a bold and progressive agenda for Canada.

Sincerely,

Alex Ferguson
Vice President, Policy & Performance

1 Canada is a Trading Nation

1.1 A New Natural Resources Market Access Strategy

Canada is a small open economy, making exports (including commodities) essential for economic activity and growth. Infrastructure is important for all natural resource industries. Road networks support industry activity at a local level, while rail, pipeline, and marine infrastructure enable our products to reach domestic and foreign markets.

Our industry's contribution to economic activity and growth could most effectively be realized through transportation capacity to access tidewater. The global energy market is changing, and Canada requires a modern distribution system that allows us to reach more customers, reducing the deep discounts for Canadian crude oil evident by Canada's reliance on a single market. Now, more than ever is the time to act. Canadian crude oil imports increased 16 per cent in 2015, reversing a three-year downward trend. The US share of total imports increased to 62.4 per cent.¹ Each stalled pipeline project that would open up access to world markets costs Canada between \$11 and \$25 billion in foregone economic benefits annually.²

1.2 Stable Markets Ensures Investor Confidence

Foreign direct investment (FDI) into Canada's economy is vital. FDI was up 6.8 per cent in 2015 to about \$770 billion. The mining and oil and natural gas extraction sector account for almost 20 per cent of total FDI.³ Maintaining a stable and competitive investment climate in Canada's oil and natural gas sector is important for job creation and economic growth.

Canada ranks 3rd in the world in terms of investor sentiment.⁴ Investor confidence reflects the intentions of the world's leading corporations to engage in FDI over the next three years. Canada will need to maintain an open economy and ensure that the fiscal framework reflects the realities of the modern oil and natural gas industry and that Canada remains cost competitive.

1.2.1 Tax Modernization

Clean technological development is changing the nature of the oil and natural gas industry. Canada's tax system should be modernized to reflect this reality. Providing Canadian companies with a stable and modernized tax system ensures investor confidence and frees up critically needed capital for companies to reinvest in Canada.

¹ National Energy Board, 2016, *Market Snapshot: Record high crude oil imports from the U.S. push Canadian oil imports to a three year high*, <https://www.neb-one.gc.ca/nrg/ntgrtd/mrkt/snpsht/2016/03-01hghcirdlmpert-eng.html>.

² Canada West Foundation, 2013, *Pipe or Perish: Saving an Oil Industry at Risk*, http://cwf.ca/pdf-docs/publications/PipeOrPerish_Feb2013-1.pdf.

³ Statistics Canada, 2016, *Foreign Direct Investment, 2015*, <http://www.statcan.gc.ca/daily-quotidien/160426/dq160426a-eng.htm>.

⁴ AT Kearney, 2016, *AT Kearney Foreign Direct Investment Confidence Index*, <https://www.atkearney.com/gbpc/foreign-direct-investment-confidence-index>.

1.2.2 Cost Competitiveness

Canada currently enjoys a competitive advantage in the global market with the Canadian dollar trading at a discount to the US dollar, which makes Canadian goods more attractive to U.S. buyers, as well as providing a lower cost structure for many foreign investors. Canada's cost competitiveness relies on the Bank of Canada appropriately managing inflation.

1.2.3 Carbon Constrained World-Opportunities

As governments across the world begin to address the challenges of climate change, Canadian energy companies can take an innovation leadership role. In order for countries to achieve a two degree reduction in the rise of the global average temperature, current levels of energy consumption from fossil fuels will need to be reduced by roughly a third, while renewable energy production will need to increase.⁵ Canada has an opportunity to position its energy sector as a clean and responsible energy source for the future.

2 Canada is an Innovative Nation

Canada is one of the most innovative economies. Canada generates over 4 per cent of global knowledge, with only 0.5 per cent of the world's population. Since 2006 over \$9 billion has been spent in support of science, technology, and innovative firms—fostering a world-class research and innovation system that supports Canadian businesses and economic growth.⁶

Canada's oil and natural gas industry is an innovation supercluster, with active participation of industry, government, and academia. Our industry is undertaking innovations that reduce our environmental impact. Existing and developing technologies are considerable assets that can be exported and utilized abroad—making a substantive contribution to global GHG reduction. Collaborative partnerships are making key contributions, including Canada's Oil Sands Innovation Alliance (COSIA), which has invested about \$1.3 billion to develop and share more than 800 distinct technologies since 2012.

These innovations and others could position Canada as a leader in clean technology for the oil and natural gas sector. The key is to implement policy that overcomes technological and financial barriers and taps into opportunities in our sector and across the economy.

3 Supporting Canadians

3.1 Canada's Skilled Labour Force and Its Mobility

Canada has the largest share of adults with a post-secondary credential at 54 per cent out of any country in the OECD.⁷ However, Canada's low mobility of labour limits the effectiveness of this skilled workforce. The OECD finds that “about 75 per cent of Canada's labour flows involve

⁵ Energy Technology Perspectives, 2016, *Towards Sustainable Urban Energy Systems*, <http://www.iea.org/etp/>.

⁶ Canadian Trade Commissioner Service, *Canada's Innovation Strengths and Priorities*, <http://tradecommissioner.gc.ca/innovators-innovateurs/strategies.aspx?lang=eng>.

⁷ OECD, 2015, “Education at a Glance 2015: OECD Indicators Canada,” 2015, *Education at a Glance 2015*, http://www.oecd-ilibrary.org/education/education-at-a-glance-2015/canada_eag-2015-47-en.

movement within provinces.”⁸ After controlling for social and economic variables, research finds that people are much more likely to relocate within rather than between provinces.⁹

There are many potential levers to address this issue. Credential recognition for skilled labour could be streamlined and simplified, making it easier for skilled workers trained in one province to work in another. Apprenticeship training can be made more transferable between provinces, making it easier to start training in one province but complete it in another. Changes can be made to enhance the tax incentives for temporary workers.

3.2 Aiding the Unemployed and Supporting Indigenous Peoples

While enhanced labour force mobility benefits those with skills and credentials, we need to ensure all segments of the Canadian population benefit, including the unemployed and Indigenous Peoples. We see under-employed and unemployed workers as a potential resource to replace our industry’s retiring workforce over the coming years. Retirements are expected to result in the need to fill close to 20,000 operating positions by 2020.¹⁰ One potential policy tool that can be used to help access unemployed workers is federal and provincial government funding provided under transfer agreements, including the Labour Market Development Agreements (LMDAs). Past evaluations have highlighted the impacts work experience and skills development programs can have, with 86 per cent of participants reporting that they had a job within two years, 72 per cent experiencing increased weekly earnings, and 87 per cent reporting that they received credentials.¹¹ Therefore, we recommend that the LMDA framework include expanded funding for work experience and skills development programs.

Canada’s Indigenous Peoples have not participated in Canadian prosperity to the fullest extent possible. Nonetheless, industry is currently engaged in facilitating the sharing of prosperity with Indigenous Peoples. During the 2000-2014 period, the oil sands industry purchased \$10 billion in goods and services from companies owned and operated by Indigenous Peoples.

CAPP supports the federal government goal of a new relationship with Indigenous Peoples. This renewed relationship should include the prioritization of investment in physical infrastructure and human capital in First Nations communities. This would include the elimination of the funding gap in First Nations education, joint government and industry support of training programs that prepare trainees for employment opportunities, support for Indigenous entrepreneurs, and investment in infrastructure to enhance resource development in those communities.

⁸ David Carey, 2014 “Overcoming Skills Shortages in Canada,” *OECD Economics Department Working Papers*, http://www.oecd-ilibrary.org/economics/overcoming-skills-shortages-in-canada_5jz123fgkxjl-en.

⁹ David Amirault, Daniel de Munnik, and Sarah Miller, 2013, “Explaining Canada’s Regional Migration Patterns,” *Bank of Canada Review*, Spring 2013, <http://www.bankofcanada.ca/wp-content/uploads/2013/05/boc-review-spring13-amirault.pdf>.

¹⁰ PetroLMI, 2016, *Labour Market Outlook 2016 to 2020: Canada’s Oil and Gas Industry*, <http://careersinoilandgas.ca/media/243771/canada-wide-labour-market-outlook-final.pdf>.

¹¹ Employment and Social Development Canada, 2013, *Evaluation of the Labour Market Agreements*, http://www.esdc.gc.ca/en/reports/evaluations/2013/labour_agreements.page.