

Canadian Association of Petroleum Producers

Responses

1. Economic Recovery and Growth

Given the current climate of federal and global fiscal restraint, what specific federal measures do you feel are needed for a sustained economic recovery and enhanced economic growth in Canada?

We can all be proud that Canada is performing better than other G7 members. This is in substantial part the result of sound fiscal policies emphasizing prudent time-limited stimulus spending at the recession's trough and a planned target to eliminate the deficit by 2014-15. A highly productive and booming resource sector coupled with a strong financial system has also contributed greatly to Canada's leading economic performance related to the G7 and broader OECD. The upstream petroleum industry has long been one of the key drivers of Canada's economic success with activity across the country – the largest private sector investor in Canada with annual capital spending of over \$50 billion, direct and indirect employment of more than half a million Canadians and the nation's largest export industry. The Government's Economic Action Plan wisely places the private sector at the centre of Canada's economic recovery and sustained growth. Government's competitive fiscal policy has helped Canada attract business investment and economic activity that has led to one of the G7's lowest unemployment rates. Canada's broad-based, low rate corporate income tax structure sets a competitive investment environment while recognizing the unique nature of capital formation across the economy's different sectors. While the Government has eliminated or phased out a number of specific sector programs for the oil and gas industry, many still exist for manufacturing, renewable energy, film and so forth. With the remaining fiscal regime, the oil and gas industry clearly is not subsidized by any reasonable definition. The tax structure for oil and gas reflects the business risk, lead times and size of capital investment associated with this industry. The Government should be commended and needs to maintain its commitment to regulatory reform through timely implementation of provisions outlined in Bill C-38, ensure non-discriminatory policy in other jurisdictions towards Canadian oil and gas exports, and continue to diversify our export markets, in particular access to Asia-Pacific markets from Canada's west coast for oil and gas exports. All of this will ensure access to global markets for Canadian production.

2. Job Creation

As Canadian companies face pressures resulting from such factors as uncertainty about the U.S. economic recovery, a sovereign debt crisis in Europe, and competition from a number of developed and developing countries, what specific federal actions do you believe should be taken to promote job creation in Canada, including that which occurs as a result of enhanced internal and international trade?

The upstream petroleum industry is the country's largest private sector investor, a significant driver of the health of the Canadian economy and is responsible for direct and indirect employment of more than half a million Canadians. The industry is national in scope with a broad reach through direct investment, supply chain, employment and financing. The global need for energy will continue to rise for decades to come. Canada is well positioned to grow as one of the world's major energy suppliers. This supports the federal government's initiatives to diversify our export markets, especially in the Asia-Pacific region. As the world's third largest producer of cleaner burning natural gas, with over one hundred years of supply, and having the third largest reserves of crude oil, investment and growth in this sector will continue to

generate high-skilled, well-paying employment opportunities for all Canadians. Going forward, our challenge is not just growing the labour force, but identifying and attracting the skilled labour we need. In fact, chronic skilled labour shortages are one of the greatest threats to our sector, to resource development and to the broad economy. There must be a priority on the diversity of policy measures to ensure the workforce availability needed to support the sector's continued growth. These include policies on education, training, labour mobility, engagement of underrepresented groups (including Aboriginal peoples) and immigration (both temporary and permanent). Industry recognizes that our first priority must be attracting, training and retaining Canadian workers. On immigration, we commend the Government for recent positive changes, including to the temporary foreign worker program. Early anecdotal evidence indicates the Accelerated Labour Market Opinion (ALMO) will, in fact, allow for faster processing. Further streamlining of the ALMO process, including certain provincial exemptions for some occupations in acute shortage of supply, will allow more rapid admission of skilled tradespeople. Improvements to the Skilled Worker Immigrant Program, the Canadian Experience Class and the Entrepreneurial Immigrant Program all aid in acquiring skilled labour from abroad that is not available in Canada.

3. Demographic Change

What specific federal measures do you think should be implemented to help the country address the consequences of, and challenges associated with, the aging of the Canadian population and of skills shortages?

This is a critical challenge for Canada's upstream petroleum producers. Together, our industry's continuing growth and an aging workforce are leading to worrisome forecasts of chronic skilled labour shortages for years or decades to come. The Petroleum Human Resource Council recently released its labour market outlook. Among its observations is that just through 2015 our industry will need to attract 9,500 new workers. Looking further ahead, the Council projects a daunting need to recruit between 50,000 and 130,000 new employees by 2020. Government can complement private sector initiatives in these areas. Among the possible useful steps for Government:

- Ensure that young people have essential literacy and numeracy skills required to work in our high technology industry and in a high tech world in general.
- In addition to encouraging more university educated people in the workforce, Government can help stress the importance and promise of training and careers in the skilled trades.
- Continue linking Canada's immigration stream to the country's economic needs, including ongoing efforts to make the Labour Market Opinion and Temporary Foreign Worker Processes both faster and simpler. It would make sense to develop flexible approaches to allow qualified Americans to fill expected vacancies.
- Where possible, Government should partner with industry in efforts to attract Canadians that are under-represented in the petroleum industry. This includes Aboriginal peoples, women, persons with disabilities and immigrants already in Canada.

4. Productivity

With labour market challenges arising in part as a result of the aging of Canada's population and an ongoing focus on the actions needed for competitiveness, what specific federal initiatives are needed in order to increase productivity in Canada?

Innovation and technology are key to increasing labour productivity for Canada in general and oil and gas production in particular. While abundant, by world standards Canada's oil and gas resources are often higher cost to extract and more distant from markets than those of our competitors. The industry has always relied on technological innovation to increase productivity and reduce unit costs. These are important to keep Canada competitive with the world in attracting investment capital and exploring opportunities to supply new export markets. In addition to increasing operational efficiency and unlocking previously uneconomic resources (e.g., shale gas), innovation and technology are growing

factors in reducing industry's environmental footprint. The recently formed Canada's Oil Sands Innovation Alliance (COSIA) is focused on accelerating the pace of improvement in oil sands environmental performance through collaboration. The intent is for industry, government, academia, and the wider public to collaborate to address environmental performance in four Environmental Priority Areas – tailings, water, land and greenhouse gases. CAPP was very active with the Expert Panel on Federal Support to Research and Development's public consultations. Our written submission of February 2011 and our Panel report response to the Minister of State, Science and Technology in February this year outlined a number of factors that inhibit technology development and deployment within the Canadian upstream petroleum industry. These include measurement and reporting metrics that inadequately account for R&D that takes place at operating sites (i.e., outside the "laboratory"), narrow definitions of SR&ED tax credit eligibility, the inherent tension created between commercial competition and the need for research collaboration, and the competitive pressures of global market forces often being at odds with a strong focus on R&D. The Panel's report unfortunately did not address these significant impediments to enhancing R&D in Canada's oil and gas industry. Technology and innovation in the oil and gas sector, along with enhanced collaboration among our industry and other interests, is fundamental for Canada to become a global energy superpower.

5. Other Challenges

With some Canadian individuals, businesses and communities facing particular challenges at this time, in your view, who is facing the most challenges, what are the challenges that are being faced and what specific federal actions are needed to address these challenges?

CAPP has alerted the Finance Committee over several years to the challenging business environment facing Canadian natural gas production. Technological advances have made vast unconventional natural gas resources economically viable throughout North America, including those resources close to large U.S. markets. Canadian exports have dwindled and netback prices have fallen to multi-year lows. With over one-hundred years of cleaner burning natural gas supplies and as the world's third largest producer, Canada is threatened by the growing self-sufficiency of the U.S. as our sole export customer. While we recognize that our industry must take action to respond to these changing market conditions, governments also have an important role in ensuring the competitiveness of our fiscal and regulatory system. Federal government focus on opening new export markets, especially in the growing Asia-Pacific region, is welcomed by Canada's resource sector. Cleaner burning natural gas can reach large potential markets in China, Japan and South Korea as liquefied natural gas (LNG) from Canada's west coast. Recent trade initiatives, closer government ties with the Asia-Pacific region, regulatory reform and improvements to temporary foreign worker programs all aid to promote new exports. However, these new market forays face stiff competition from other exporters, particularly Australia. Timely development with an efficient regulatory process and a competitive fiscal regime are key to successfully advancing Canada's interests. The federal government can assist in LNG export infrastructure development by classifying LNG export facilities as manufacturing and processing for tax purposes. Class 47 gives LNG facilities 8 per cent declining balance while Class 43 gives manufacturing and processing 30 per cent declining balance. LNG exporting is clearly "manufacturing and processing" by creating an LNG product from marketable natural gas. Separation, acid gas removal, dehydration, mercury removal, natural gas liquids extraction and distillation towers, an input which is not raw natural gas and an output which is "beyond the stage that is acceptable to a common carrier of natural gas" – all are recognized manufacturing and processing at straddle plants. Class 43 tax treatment would make Canadian LNG export facilities more competitive with Canada's competitors supplying the Asia-Pacific region.