

Shell Canada Limited

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?

The Government of Canada is to be commended for recognizing the importance of growth projects through its initiatives in resource market diversification. Such projects provide the incremental economic benefits that support Canada's current economic recovery and future economic health. As a member of the Canadian Association of Petroleum Producers, we support its comments on the importance of the oil and gas industry to the Canadian economy. International fiscal competitiveness is key to enabling growth initiatives, especially those focused on the Asian market where there is significant competition from Australia, the United States and other sources of supply. In particular, the export of Liquefied Natural Gas (LNG) is facing a window of opportunity that will be closed to Canada if we are unable to take timely investment decisions on multi-billion dollar projects. Canada's international competitiveness on fiscal terms is critical to promoting these projects. To further assist in the future development of LNG, it is essential that the tax treatment of LNG liquefaction facilities (Class 47) be equivalent to that of straddle plants (Class 43) as both processes produce marketable liquid products – liquefied natural gas vs. natural gas liquids. At this time, while the capital costs associated with a straddle plant are depreciated at a rate of 30% per year (on a declining-balance basis), the capital costs associated with LNG facilities are depreciated at a rate of 8% per year (on a declining-balance basis). Liquefaction uses similar processes to those used in a straddle plant. The proposed treatment of tax depreciation rates for LNG facilities will assist the economic competitiveness of these capital-intensive projects. It is critical that the increase of tax depreciation rates occurs in the 2013 budget, since LNG project proponents are in the process of making investment decisions which will determine the success or failure of Canada's LNG export industry. A relatively short timeline currently exists for the federal government to ensure that Canada is competitive globally and positively influence the final investment decisions for the numerous LNG export facilities that are currently being proposed in Canada.

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?

Oil and gas projects create jobs across the country, not just in their host region. The national GDP and employment benefits have been documented in studies by the Canadian Association of Petroleum Producers and the Canadian Energy Research Institute. In fact, a 2009 report from CERl ("Economic Impacts of the Petroleum Industry in Canada") concluded that for every 10 person-years of employment predicted from oil and gas investment in Alberta, 3.5 person-years of incremental employment were projected in other regions of Canada. Without market diversification, the Canadian oil and gas sector will lose jobs in the foreseeable future as Canadian resources are forced to compete with new sources of North American supply at uneconomic price levels. Growth projects in support of market diversification will create incremental highly-skilled jobs over and above existing employment levels. In addition,

growth projects related to LNG will create opportunities for employment for First Nations and local communities who are key stakeholders in the developments. Support for training and other employment capacity-building is a critical success factor for oil and gas growth initiatives. Appropriate fiscal treatment for LNG facilities drives the growth that drives jobs. Reclassifying LNG facilities to receive the same tax treatment as straddle plants enables investors to commit to growth projects. It is thereby an investment in job creation and associated benefits.

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?

An aging workforce will create substantial challenges for future government policy. Providing the funding for increasing costs of pensions and healthcare will require sustained economic growth. The availability of a skilled workforce in the time and place where it is needed is a critical enabler for potential oil and gas investments. Shell supports recommendations from industry organizations for further improvement in the areas of:

- Timely, relevant labour information support systems to align skill development programs to anticipated requirements
- Improvements to labour mobility within the country
- Inclusion of high-unemployment groups in oil and gas training and employment opportunities
- Improvements to immigration and temporary foreign worker processes

Progress on these issues would provide improved flexibility of the labour force to respond quickly and efficiently to changes in demand.

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?

Technology is the key to increasing worker productivity as well as the efficiency of resource development. Easy-access conventional resources have already been developed and are in decline. The growth opportunities that exist are in more technologically challenging resources and processes which also tend to be higher-cost. Advancements in environmental/regulatory standards are also driving the need for technology and process improvements so that industry can maintain its license to operate. In last year's budget, Canada made changes to the Scientific Research and Experimental Development (SRED) program. The changes were driven by the government's desire to see greater commercial benefits from the program. Shell, however, agrees with the Canadian Council of Chief Executives that further consultation is needed. There is a long road from initial research to ultimate commercialization of a technological innovation. Optimizing different points in that value chain would be a more effective way to increase the successful conversion of research to operational projects.

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?

The oil and gas industry in Canada is an important contributor to the Canadian economy and has been for decades. The industry has provided much of the energy needs that have fuelled economic development nationally, regardless of where the resource was originally produced. Ongoing competitive fiscal fundamentals are critical to the health of such a basic industry as it faces market diversification challenges.