



PRESENTED TO THE STANDING COMMITTEE ON FINANCE
AUGUST 7, 2020



RECOMMENDATIONS

1. Craft clean technology investments with the knowledge that a healthy oil and gas industry is necessary for clean energy to succeed.
 2. Provide additional liquidity measures to support economic recovery in Canada's drilling and service rig industry.
 3. Create the Canadian Drilling Safety and Sustainability Grant Program.
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Honorable Wayne Easter P.C.
Member of Parliament, Malpeque
Chair, Standing Committee on Finance
Sixth Floor, 131 Queen Street
House of Commons
Ottawa ON K1A 0A6

Re: Supporting Canadian Energy Workers in Budget 2021

Dear Mr. Easter,

What follows is the Canadian Association of Oil Well Drilling Contractors (CAODC) 2021 pre-budget submission. As an experienced parliamentarian you will appreciate that our recommendations for the committee cannot be fully understood unless placed in context.

The world is in a period of upheaval. The health, social and economic impacts of Covid-19 are present and evident in some cases and still unfolding in others. As consumers stayed home during the pandemic and still travel less than normal, the demand for oil products like gasoline and diesel fuel has plummeted, forcing some producers to accept negative pricing for their product.

The pandemic comes at a time when the Canadian oil and gas sector is at the bottom of a six-year long recession, the result of domestic and international political, environmental, and economic forces beyond the control of our members. For instance, we question public policy that makes it easier and more economic to move millions of barrels of Canadian and foreign oil by ship and rail instead of pipeline.

Matters were made far worse this year when Saudi Arabia and Russia flooded the world with oil in a race to the bottom to maintain global market share. Today, almost all our drilling rigs sit idle. The Canadian oil and gas industry has never been in worse shape and workers have paid the price. Hundreds of thousands of Canadian oil and gas workers have left the sector or are unemployed.

Governments have responded to the oil and gas crises with only poor to moderate success. Financial support has been slow to flow if it has flowed at all, points that we will address in our submission. Raising capital is all but impossible. Independent Canadian oil and gas companies are especially at risk of insolvency. Our pleas for program reform have not been acted upon, with the inevitable results. Scores of drilling and service companies, not to mention producers, will not make the year-end without effective support. The damage that this will do to communities in western Canada and Newfoundland and Labrador is difficult to contemplate. This submission proposes initiatives that can stave off this pending economic calamity.

When we can raise our heads from these crises, we see a future of opportunity but only if governments make the right decisions. Worldwide demand for oil and gas is projected to grow through at least 2040. The question is, who benefits? Will Canadian companies be around to supply the demand or will Canadian public policy so dissuade investment and restrict Canadian companies that they won't be able to compete with foreign State Owned Enterprises that, too often, treat Environmental, Social, and Governance (ESG) standards with an indifference approaching contempt. Canadians and Canadian policy makers need to ask

themselves where their gasoline and diesel fuel should come from, unreliable and often hostile Petro-states, or from Canadian producers? Do they value the Canadian energy sector's contribution to workers and the economy, or, are they indifferent to, or even supportive of, the sector's decline?

We are buoyed by Government of Canada enthusiasm for exploiting new forms of energy such as geothermal and hydrogen and for the export of liquefied natural gas (LNG). All hold promise for dramatically reducing worldwide GHGs while also creating tens of thousands of good-paying jobs. CAODC wholeheartedly supports these initiatives. We do note however that Canadian drillers and service companies must first survive the current crises if they are to be around to help Canada successfully navigate the energy transition to net zero by 2050.

The CAODC thanks the committee in advance for its consideration of the following recommendations. We wish you good luck in your deliberations.

Sincerely,



Mark Scholz

President

Canadian Association of Oilwell Drilling Contractors

SUPPORT CANADIAN ENERGY WORKERS

1. Craft clean technology investments with the knowledge that a healthy oil and gas industry is necessary for clean energy to succeed.

Canada's oil and gas industry, in general, forms the foundation for all other domestic energy industries—if not directly through equipment, expertise, and overlap, then indirectly through being the largest investor in energy diversity in the country.

CAODC members are a vital component of Canada's expanding energy industry. In addition to responsible oil and gas production, drilling and well servicing contractors are needed for **hydrogen production and storage** (drilling for and producing natural gas for blue hydrogen, and drilling and preparing salt caverns and other hydrogen storage areas), **carbon capture and storage** (drilling and preparation of storage areas), **lithium production** (drilling of large diameter well bores), and **geothermal production** (drilling production wells).

Further, the pipe needed for wells, the surface area preparation, the environmental assessments, the health and safety programs and training, the trucking services needed, the manufacturing of apparel and specialty equipment etc. are all a part of the greater service sector that exists not only for oil and gas, but for all other energy sources.

Unfortunately, service companies must rely on exploration and production companies with budgets for capital expenditures in order to work and grow. Without a healthy oil and gas industry that makes money, there is much less investment in new energy.

Canada must enable investment in natural gas and oil to support the innovation needed for successful long-term emissions reduction and environmental performance improvements. The Association recommends that the Government of Canada work with the drilling and service rig industry to design clean technology investment programs that simultaneously incent investment in GHG reducing technologies and support the industry that is necessary to ensure program success.

2. Provide additional liquidity measures to support economic recovery in Canada's drilling and service rig industry

The Government of Canada could support the Canadian drilling and service rig industry by introducing additional liquidity measures through the Business Development Bank of Canada (BDC) and Export Development Canada (EDC) using unsecured and subordinate financial instruments.

The criteria and details of the Association's recommendations include the following:

- Terms of loans should not be short term in nature. The Association recognizes that the BDC Co-Lending Program is long term, and recommends the federal government extend the term of the EDC Loan Guarantee to a minimum of five (5) years, or create another facility that sits in-between the EDC and BDC programs.
- Loans must be unsecured and subordinated to all existing debt, and this should be mandated by

the federal government. This distinction is important as members with existing loans will have limitations on the type of debt they can incur. It is not clear how the current programs are set up and where they would rank to existing debt.

- Loan proceeds from both programs should be allowed to be used to refinance or repay existing debt. The EDC Loan Guarantee allows proceeds to be used for interest payments and this should be expanded to include other debt repayments. This is important as some members have debt that will need to be refinanced in the coming months.
 - Interest rates should be capped to rates that are similar to what the companies are currently paying on credit facilities and should be dictated by the federal government and not the lending institutions.
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3. Create the Canadian Drilling Safety and Sustainability Grant Program

The Government of Canada could support the Canadian drilling rig sector, create thousands of oilfield jobs, and prepare the country for economic recovery by establishing a program in the form of a non-repayable grant to drilling rig contractor businesses through Natural Resources Canada.

The Federal Government has already implemented support for the well servicing industry by funding orphan and inactive oil and gas wells, but additional support for the drilling services sector is necessary.

The drilling services sector would significantly benefit from the creation of a Canadian Drilling Safety and Sustainability Grant (the “Grant” or “Grant Program”). The total cost of the program need not exceed \$55 million, and given industry would invest approximately the same amount, the program would generate approximately \$107 million of capital investment and lead to the creation of approximately 355 man-years of work.

The criteria and details of the Grant Program should include the following:

- The Grant should be limited to Canadian Drilling Contractors that are domiciled and have offices/ operations in Canada regardless of the size of the contractor.
- The Drilling Contractor must be a “going concern business”.
- The Grant should be limited to drilling rigs registered with the CAODC.
- The Grant should assist Drilling Contractors in partially subsidizing their costs of performing Level IV Drilling Rig Inspection and Re-certifications (“Level IV Recertification(s)”).
- The Grant would reimburse Drilling Contractors for approximately half of the Level IV Recertification Cost on a “per item” basis, with the specific amount to be determined by the GoC.
- The Association suggests the items should include:
 - Blowout Preventors (proposed grant value \$80,000 per unit)
 - Boilers (proposed grant value \$10,000 per unit), and
 - the Drilling structure which includes the mast, top drive, drawworks brake, crown and substructure (proposed grant value \$380,000 per rig).
- The Drilling Contractor would be required to:
 - submit evidence that the Level IV Recertification was completed, and

- demonstrate that the costs exceeded the value of the Grant, after which the Grant amount would be reimbursed to the Drilling Contractor within a reasonable time.
 - The Grant should be a true grant, not a repayable loan.
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Conclusion

The loan and grant recommendations suggested above will not only help the oil and gas sector, but also ensure our service industry remains intact so it can meet the needs of all forms of energy production. By stabilizing the community that serves Canadian energy, we can protect and preserve a foundation that will continue to develop world-class Canadian businesses and technology at home, as well as attract investment from abroad.