

## Standing Committee on Finance (FINA)

### Pre-budget consultations 2012

## Spectra Energy

### 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?*

Spectra Energy is a leading North American natural gas delivery company with deep roots in Canada through its operations Spectra Energy Transmission West (55 years in British Columbia) and Union Gas (100 years in Ontario). Canada remains a very attractive destination for investment, with its low corporate tax rate, stable dollar and highly skilled workforce. With changing continental supply creating new market pressures on Canadian natural gas, creating new demand for the resource (e.g. natural gas-fired power generation, natural gas vehicles) and accessing new export markets for Canadian natural gas is a pressing need. With significant international competition from countries such as Australia, Qatar, the U.S. and others to secure new Asia-Pacific markets, billions of dollars of revenue and royalties and thousands of jobs for Canada are at stake. Key proposals to ensure Canadian natural gas can successfully compete include: 1) Implementation of Changes to Federal Project Review System: Federal project review system changes contained in Budget 2012 are very promising. There must be vigilance to ensure their successful implementation. Key to moving forward include: a) active pursuit of delegation to and equivalency agreements with the provinces wherever possible, and special attention to coordination for provincially-regulated projects with federal permitting requirements; b) delivery of mandated timelines; c) high degree of coordination working and consulting with Aboriginal communities; d) regulatory authorities (such as the NEB) receive the necessary amount of financial support to successfully implement these changes. 2) Reclassification of LNG Plants: Spectra Energy supports the Canadian Association of Petroleum Producers' (CAPP's) request to re-classify Liquefied Natural Gas (LNG) plants under the Tax Act to assist in helping Canada to better compete internationally in the natural gas export market. This is especially important at a time with low commodity prices. LNG plants should be properly re-categorized under the CRA definition of "manufacturing and processing," treating LNG plants the same as gas processing plants (Class 41, or Class 43). The tax depreciation would move from the current 8% declining balance to 25% or 30%, respectively. Class 43 treatment would make LNG facilities competitive with U.S. facilities on an after-tax basis.

#### 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?*

Plentiful natural gas reserves in Canada, a skilled workforce and the application of new technology have great potential for producing thousands of high quality jobs and billions of dollars in federal and provincial royalties. Many of these jobs will be in remote and northern communities, e.g. NE British Columbia, and "Ring of Fire" in northern Ontario. Canada must ensure that its commitment to an efficient review process for large resource projects is followed through at the implementation stage. Canada also needs to continue to develop greater skills development and capacity in its future workforce, especially with regards to northern and Aboriginal Canadians. 1) Implementation of

Changes to Federal Project Review System: As noted in response to question 1 above. 2) Reclassification of LNG Plants: as noted in response to question 1 above. 3) Northern/Aboriginal Skills Training and Education: Spectra Energy and other private sector operators have invested in many skills training programs in northern communities, for example the Northern Opportunities Program in Northeast BC, to develop a wide variety of skills training for northerners, especially Aboriginal people. With the significant potential economic activity noted above, these communities will need to be prepared to be full participants in economic development. We ask the federal government to enhance support for northern education in general, with a priority focus on areas of “significant economic development potential”, such as Northeast BC and northern Ontario: a) Extension of existing skills training programs in northern BC, with particular attention to the success of the Northern Opportunities program, supported by industry; b) increase funding to local agencies and non-profit organizations that partner with industry and local communities to develop and implement increasing high school graduation rates for Aboriginals, and also further develop financial literacy; and c) increase funding for the same groups noted in (b) to support Kindergarten – grade 7 “stay in school” programs (further information in response to question 5).

### **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?*

With the opportunity for large-scale expansion and development in the coming years, the natural gas industry expects there to be significant skilled labour shortages. The federal government has recently made changes to the foreign worker program in its desire to match skills with business needs in Canada. We applaud this. We also request that continued efforts be made to make it easier for U.S. workers, generally very compatible with Canadian employment needs, to work in Canadian projects, if no qualified Canadian workers can be found to do the work. Spectra Energy is involved in numerous programs to train northerners and Aboriginals in numerous skills to work in business, and also serve in northern communities. There is a great opportunity for deeper partnership with northern and Aboriginal communities in Canada to support resource projects in all sectors. The combination of local talent, local community, and local training for financial success is critical. By providing access to training in northern centers to individuals with local knowledge who want to live and work in northern communities, a much stronger and less transient employment base will develop. 1) Northern/Aboriginal Skills Training and Education: As noted in response to question 2 above. 2) Northern Fuel Switching: Spectra Energy supports the Canadian Gas Association’s call for the federal government to support fuel switching in northern and Aboriginal communities. Energy is a fundamental pillar for strong economic development. With natural gas’s abundance, its low-cost and clean-burning characteristics, switching to Compressed Natural Gas (CNG) or Liquefied Natural Gas (LNG) should save the government millions of dollars, and provide a cleaner alternative for these communities. We urge the federal government to identify pilot projects in high priority economic areas (e.g. northern Ontario – Ring of Fire development and northern BC) in order to test and implement the fuel-switching. This switching should save the federal government money that can go into other higher priority initiatives, such as Aboriginal education.

### **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?*

Together with the other issues noted above, an additional focus of the federal government should be to better unlock innovation potential through changes to the current SR&ED system. We recognize the

government's work in this area through the "Expert Review Panel on Research and Development," and propose these changes to effect incremental improvements to the existing system. 1) Innovation – SR&ED: At present, the current SR&ED application system penalizes the limited partnership structure that is now used widely in the corporate sector and unnecessarily restricts innovation investments. Generally all taxable income, losses or other tax attributes generated by a limited partnership are allocated to all partners. However, where a Limited Partnership carries out SR&ED activity, the corresponding Investment Tax Credits and, when the Limited Partnership is in a loss position the SR&ED deductions, flow only to the general partner under the Income Tax Act. Generally speaking Limited Partnerships are structured so that the general partner holds less than a 1% interest with the limited partner holding the remaining interest. This can make it difficult or impossible for the general partner to use the Investment Tax Credits as usually the general partner's only source of income is the income allocation from the Limited Partnership. Spectra Energy, like many other companies, uses the Limited Partnership model because Canada does not have consolidated tax filing. This issue would likely be addressed through consolidated tax filing, and we urge the committee to continue to support Canada moving in this direction.

## **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?*

Aboriginal Skills Training and Education: Aboriginal Canadians and their communities are essential partners in natural resource projects in Canada, but their potential has not been realized. By providing access to training in northern centers to individuals with local knowledge who want to live and work in northern communities, a much stronger and less transient employment base will develop. Recent efforts to expand economic opportunities have focused on skills training at the College level. These programs, in partnership with industry, should be expanded, with priority being placed on the areas of Canada where significant economic activity is expected, such as Northeast BC (natural gas development) and northern Ontario (Ring of Fire mining development). Renewed focus needs to be placed on keeping children in school at younger ages. Programs exist across Canada where Aboriginal funding agencies, with industry participation, fund important programs to teach aboriginal children about the importance and applicability of math and science skills. There are also many volunteer programs where company employees visit classrooms and also accompany children to visit their operations to give them an early understanding of the importance of education and training. We urge the federal government to identify priority economic development areas, and significantly increase funding across the entire educational spectrum, to local agencies and non-government organizations, who partner with local industry on educational initiatives. Access to these programs should not be limited or exclusive to Aboriginal or First Nations communities, and should be inclusive to all groups in the north. Finally, energy is a fundamental pillar for strong economic development. With natural gas's abundance, its low-cost and clean-burning characteristics, switching to Compressed Natural Gas (CNG) or Liquefied Natural Gas (LNG) should save the government millions of dollars, and provide a cleaner alternative for these communities. We urge the federal government to identify pilot projects in high priority economic areas (e.g. northern BC and northern Ontario) in order to test and implement the idea. This will allow for money saved by the federal government to go into other higher priority initiatives, such as education.