Written Submission for the Pre-Budget Consultations in Advance of the 2019 Budget

By:

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- **Recommendation 1:** That the government allow immediate deductibility of capital costs for tax purposes in the year in which they occur, to be applied broadly across the economy in a manner that aligns with similar tax reforms in the U.S. while providing the collateral benefit of enhancing the ease of tax compliance and administration;

- **Recommendation 2:** That the government and industry jointly examining innovative approaches to financing for small/medium sized firms in the upstream oil and gas sector;

- **Recommendation 3:** That the government increase the level of protection to approximately 80% coverage of the aggregate compliance cost for Energy Intensive Trade Exposed industries, including the oil and gas sector, to address the competitiveness gap with the U.S. and to avoid carbon leakage;

- **Recommendation 4:** That the government proceed with their commitment in the 2017 budget to review the Scientific Research and Experimental Development tax credit program, with a view to making it more effective through risk-sharing and inclusion of operational innovation within scope;

- **Recommendation 5:** That the government continue to take a leadership role in framing the opportunity for international recognition of Canada's progress in reducing global GHG emissions via its natural gas exports, and in seeking international credits through trade agreements under Article 6 of the Paris Agreement;

- **Recommendation 6:** That the government enable accelerated collaborative technology, infrastructure and innovation in the sector, particularly as it relates to commercializing electrification of upstream Liquid Rich Natural Gas and downstream Liquified Natural Gas facilities and other technologies with potential to reduce costs and GHG emissions.

Precision Drilling, Canada’s largest oil services contractor, with a large U.S. and International presence, has a unique view of the impaired competitiveness of Canada’s oil and gas industry. Earlier this year, a U.S. oil and gas customer funded the move of Precision rig PD-572, a premium rig, from Western Canada to Pennsylvania. This $25 million rig and roughly 100 industry related jobs have permanently left Canada, this follows 6 other drilling contractors announcing 14 additional rig transfers to the U.S ($300 mm assets + 1400 industry jobs). As the Canadian industry remains challenged with an uncompetitive cost basis; we fear more Canadian assets, jobs, and opportunities will be drawn to more competitive jurisdictions outside of Canada. We are very concerned that the damage will be lasting and will impact the Canadian economy. We firmly believe that a focused and coordinated action is required in the very near term in order to reverse investor confidence and balance the competitiveness for this sector, while supporting the transition to a lower carbon economy.

As one of Canada’s largest industries, the oil and gas sector plays a key role in the Canadian economy while also providing environmentally and socially responsible energy to global markets. Given growing global demand for oil and gas, the Canadian industry has the potential to continue to do so for several decades. To realize this opportunity, the oil and gas industry is of the view that there is a near term imperative for actions by industry and governments to address significant and systemic competitiveness gaps relative to competing jurisdictions, particularly the United States.

Industry strongly believes that focused and coordinated action is required in the very near term, in order to restore investor confidence and renew growth in the sector for the benefit of all Canadians while supporting the transition to a lower carbon economy. This urgency arises from a confluence of several factors, most notably the increasing momentum toward migration of investment capital to other jurisdictions, challenges in attracting new capital to Canada and the timing of the next window of opportunity to participate in global natural gas markets. Once established, this negative momentum is difficult and time-consuming to reverse. Canada has large and high-quality crude oil and natural gas resources, but the value of these resources (responsible development, jobs, economic benefits) can only be realized if industry invests the capital necessary to monetize these resources. The oil and gas industry in Canada is at a critical juncture in terms of near term decisions on several large investment projects.

Canada and the world are currently facing a significant challenge in meeting growing demand for safe, reliable and affordable energy, while also responding to the impacts of climate change and the need to transition to a lower carbon energy system/economy over the next several decades. These two imperatives are not incompatible if addressed in a balanced and responsible manner over time. In fact, for Canada they should go hand-in-hand.

The recent International Energy Agency’s (IEA) World Energy Outlook New Policies Scenario projects that global energy demand by 2040 will have increased by about 30% from today’s level. This demand growth is driven by population increases and by greater urbanization and industrialization, largely in Asia. The IEA also projects that by 2040 oil and natural gas will continue to supply over half of the global energy demand. As such, the timing is opportune for Canadian supply to capture new markets, with the next cycle of LNG demand emerging over the 2022-2030 period. As the fifth largest producer of natural gas Canada should be responsive to this market opportunity and continue to play a very important role in meeting global energy demand and reducing global energy poverty. Canada can do so in a manner that contributes to reducing global carbon emissions and positions Canada among the global leaders in environmental and social performance standards. If Canadian supply does not meet this demand, then supply will be provided by other jurisdictions that are likely to have lower environmental and social standards.

Canada's energy industry is among the largest economic engines driving our economy, both directly and through its linkages to other industries such as petrochemicals, power generation and the manufacturing sector. For Canadians, our oil and gas resources can continue to provide secure, reliable and affordable energy supply, while sustaining employment and economic prosperity throughout the value chain. Furthermore, oil and gas development presents a tremendous opportunity for inclusive economic growth and further tangible progress in reconciliation with Canada's Indigenous peoples.

At the same time as this economic opportunity presents itself, there is also an international consensus on the need to address global climate change and to reduce carbon emissions from the global energy system. Canada has committed to work toward significant reductions in greenhouse gas emissions, through its commitment to the 2015 Paris Climate agreement and through the Pan-Canadian Framework on Clean Growth and Climate Change. The Canadian oil and gas industry recognizes the need to address global climate change and is broadly supportive of the climate policy goals and policy frameworks being implemented by Canadian governments, provided that such policies are implemented in a manner so as to provide incentive for industry to reduce greenhouse gas emissions, while addressing the competitiveness impacts for sectors that are competing in the open market with companies operating in jurisdictions with less stringent climate policies.

Canadian oil and gas producers are collaborating on technology and innovation to reduce GHG emissions intensity and decouple production growth from emissions growth. For natural gas, with extensive electrification and methane emissions reductions, there is potential to grow production by 50% while holding absolute GHG emissions at or below current levels. However, there are transmission infrastructure and commercial challenges that will need to be addressed to enable the required scope of electrification. Canadian oil and gas exports with lower emissions than competing alternative energy sources in the market will have the effect of reducing overall global GHG emissions. These actions to ensure the carbon competitiveness of Canadian oil and gas production, along with use of verified offsets and international credits, would also contribute to aligning Canada's energy and climate aspirations.

Canada therefore has the opportunity to play a leadership role in the global transition to a lower carbon energy system/economy, with the Vision being: ***Canada is a preferred supplier of cost and carbon competitive oil and gas to domestic and global markets, produced with leading environmental and social performance standards.***

Canada continues to have a number of positive attributes in terms of investment attraction, among them the size and quality of the resource, world-class environmental standards, and competitive royalty regimes. However, both industry and the investment community are of the view that the competitiveness of Canada's oil and gas sector is increasingly challenged. Investment is leaving Canada's oil and gas sector and the sector is having difficulty attracting new investment capital. While valuations fluctuate, recent industry data indicates that Canadian LRNG companies are being valued at discounts to their U.S. peers. Many larger producers and service companies are shifting investment capital and associated jobs to other jurisdictions. At the same time, small to medium Canadian operators are having significant difficulty attracting financing. Since 2012 the number of junior companies has been reduced by almost 50% (from 49 to 25 companies).

These competitiveness challenges arise from several factors, including cost structure, changes in the business investment climate such as tax policy changes in the U.S., constraints on market access and resultant negative impacts on prices, regulatory timelines and complexity, and public perception issues. In particular, Canada faces significant market access problems, preventing growth of production and the associated benefits. For natural gas, Canada is losing market share to the U.S. in areas of Canada and the U.S. traditionally supplied by Canadian gas and to date has not participated in the rapid growth of liquefied natural gas ("LNG") export markets. This lack of market access options is being manifested in significant price discounts for both Canadian oil and natural gas.

Some of these competitiveness issues reflect broader market conditions (e.g., growth of shale oil and gas disrupting North American market dynamics) and some are reflective of policy and regulatory decisions by federal and provincial governments in Canada. At the same time other competing jurisdictions are acting to make their fiscal regimes and regulatory systems more competitive and efficient, exacerbating the situation in Canada. While these changes in competing jurisdictions may or may not be durable, they are currently having a material impact on investment attraction and capital flows.

Ensuring that Canada remains competitive would re-establish the investor confidence required to attract the capital to sustainably grow the Canadian industry and economy. Potential actions to address this issue are within the purview of both industry and governments, working collaboratively with Indigenous peoples and stakeholders.

For its part industry has reduced, and continues to reduce, cost structure and address GHG emissions intensity across all areas of the business by seeking efficiencies, and by applying new technology and innovative systems and processes.

However, industry is of the view that these actions alone cannot overcome the competitiveness challenge. For natural gas, industry modeling of representative play economics demonstrates a measurable competitiveness gap between Canadian Liquids Rich Natural Gas (LRNG) investments and similar opportunities in the U.S. Modeling shows that comparable U.S. LRNG investments have approximately double the rate of return and 1 to 2 year faster payout than Canadian investments. Most of this gap arises from recent U.S. tax regime changes, plus the incremental compliance costs of climate policies in Canada.

In summary, we believe that Canada's Liquid Rich Natural Gas subsector presents a significant opportunity for inclusive growth that provides broad benefits to Canadians and is aligned with Canada's economic, environmental and social objectives. The recommended actions would help to ensure Canada remains globally competitive and in turn restore investor confidence, attract investment and provide the platform for a broader consensus on the future of the Canadian oil and gas industry, all of which could lead to significant growth of the sector – protecting Canadian jobs and working people, providing opportunities for Indigenous Canadians and contributing to the economic prosperity necessary to support our standard of living and quality of life and to enable transition to a lower carbon energy system/economy.