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

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List of Recommendations

Recommendation 1:
Implement 100% immediate deductibility of capital costs to preserve industry competitiveness in light of recent tax reforms in the U.S.

Recommendation 2:
Revise the scope of the proposed Clean Fuel Standard (CFS) to exclude upstream oil and natural gas production. The standard duplicates measures already in place and does not address energy intensive trade exposed industry sensitivities which are built into Alberta's Climate Leadership Plan.

Recommendation 3:
Bill C-69 and associated regulations should be amended to shorten decision making timelines. It should also enable the substitution of provincial regulatory oversight where capable and competent provincial regulators are in place.

Recommendation 4:
Reduce the federal general corporate income tax rate.

Introduction
Cenovus is a Canadian integrated oil and natural gas company headquartered in Calgary. Our operations include oil sands projects in northern Alberta, which use specialized methods to drill and pump the oil to the surface, and established natural gas and oil production in Alberta and British Columbia. We also have 50 percent ownership in two U.S. refineries.

At Cenovus, our mission is to maximize the value of our company by responsibly developing oil and natural gas assets in a safe, innovative and efficient way. That includes finding the right balance between minimizing our environmental impacts and maximizing our efficiency so that we can remain both cost and carbon competitive. Over the past few years, our industry has seen fairly persistent low crude oil and natural gas prices, in addition to increased attention on climate change and the need to reduce greenhouse gas emissions. We view it as a dual challenge that requires us to significantly reduce both our cost structure and emissions intensity in order to be competitive with American crude and all other sources of energy globally. Cenovus has worked hard to drive down costs, to drive innovation forward and to improve our environmental performance over the years. Since 2014, Cenovus has realized cost reductions of over 50 percent in our oil sands sustaining capital costs, over 40 percent cost reductions to our oil sands operating costs and over 50 percent reductions to G&A costs.

Staying competitive also applies to our environmental performance. Cenovus has decreased the emissions intensity of our oil sands production by one-third since 2004 through improvements in technology. Today, Cenovus's oil sands assets have an emissions profile comparable to the average barrel of crude oil refined in North America. Cenovus continues to focus on technology development to achieve further emissions reductions. We also continue to support the goals of Alberta's Climate Leadership Plan – it addresses concerns about rising greenhouse gas emissions from the oil sands and shows the government and public that we're serious about emissions reduction. We also believe government has a key role to play in shaping an environment that supports the competitive strength of Canada's energy sector – for the benefit of our economy and all Canadians.

Cenovus is a member of the Canadian Association of Petroleum Producers (CAPP). Cenovus supports CAPP's pre-budget submission and would also like to highlight the following recommendations for government consideration as it shapes the 2019 budget.

Recommendation 1
Implement 100% immediate deductibility of capital costs to preserve industry competitiveness in light of recent tax reforms in the U.S.

Removing barriers to investment has the potential to unleash significant private sector fueled economic growth for Canada. Full capital cost deductibility can be a powerful tool to accomplish this and could also accelerate the development and commercial adoption of technologies designed to improve the oil and gas sector's competitiveness and environmental performance.

Prior to federal adoption of the full deductibility of capital costs, U.S. states that adopted full expensing in 2002 and 2008 saw investment increase by 17.5%. After five years, states that adopted the policy had 7.7% higher employment levels than comparable states that did not adopt the policy, and 10.5% higher output. The U.K. had a similar experience where greater capital allowances increased investment by 11% for qualifying U.K. small and medium-sized businesses.

Recommendation 2
Revise the scope of the proposed Clean Fuel Standard (CFS) to exclude upstream oil and natural gas production. The standard duplicates measures already in place and does not address energy intensive trade exposed industry sensitivities which are built into Alberta's Climate Leadership Plan.

The measures embodied in Alberta's Climate Leadership Plan are a far more efficient way to implement a price signal on carbon emissions than the CFS. As proposed the CFS would undermine the competitiveness of the oil and gas sector and most other Canadian industries. There is a reason that no other country or jurisdiction extends fuel standards to industry. They are the wrong policy tool if your goal is to bend the GHG emissions curve of industry. Fuel standards are more appropriately implemented on transportation fuels.

Recommendation 3
Bill C-69 and associated regulations should be amended to shorten decision making timelines. It should also enable the substitution of provincial regulatory oversight where capable and competent provincial regulators are in place.

In its current state, Bill C-69 will have a significant negative impact on the oil and gas industry by creating a great deal of uncertainty and discouraging investment. More work needs to be done to improve Bill C-69, particularly the proposed Impact Assessment Act. Without a clear set of stakeholder obligations and enforceable timelines, investors will choose to deploy capital in jurisdictions with greater regulatory clarity. As written, it is difficult to see how C-69 will increase investor confidence in Canada.

Provincial regulators have become significantly more sophisticated over the past decades. Where the federal government may once have been the only entity with the expertise and capacity to effectively regulate major industrial projects this is no longer the case. The Alberta Energy Regulator for example is where regulators from across the globe come to study best practices for the regulation of the oil and gas industry. It is time that the federal government acknowledge that projects operating entirely within a provincial boundary are more appropriately and more effectively regulated at the provincial level.

Recommendation 4
Reduce the federal general corporate income tax rate.

Until the recent U.S. tax changes, Canada enjoyed a corporate tax advantage that helped attract investment. Canada no longer has this tax advantage and should carefully consider a lower corporate tax regime that can again function as an incentive not a barrier to investment. As oil prices have recovered internationally, Canada has received a disproportionately lower share of global capital investment in oil and gas. The tax rate is in part responsible for this, along with market access challenges and a growing regulatory burden that is becoming increasingly onerous for businesses.

Conclusion
Not all of the recommendations listed above are intuitively understood as traditional budget items. However, Cenovus believes that addressing these concerns will significantly improve the competitiveness of the oil and gas sector and incent a return of investment dollars to Canada. This sector has the annual capacity to invest tens of billions of dollars in the Canadian economy. Cenovus looks forward to working with government to find ways to restart this important economic growth engine.