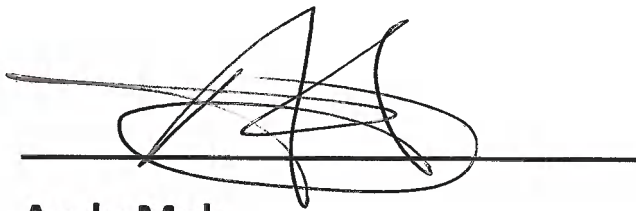


**Written Submission for the Pre-Budget  
Consultations in Advance of the 2019 Budget**

**By: Advantage Oil and Gas Ltd (“Advantage”)**

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke extending to the left, positioned above a solid horizontal line.

**Andy Mah**

**President & Chief Executive Officer**

- **Recommendation 1:** That the Federal 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 Federal Government implement a framework to ensure that the competitiveness of Canada's Energy Intensive Trade Exposed industries (EITE), including the oil and gas sector, are not compromised or disadvantaged by compliance costs of the Federal Government's proposed carbon tax;
- **Recommendation 3:** That the Federal Government adopt the policy of applying Carbon Tax at the source of consumption rather than the source of production.

Canada is a country blessed with a level and diversity of natural resources that is the envy of the rest of the world. In terms of oil and natural gas, Canada is the third largest holder of crude oil reserves and one of the largest holders of unconventional natural gas reserves in the world. In 2017, Canada was the world's fourth largest producer of both crude oil and natural gas. The exploration, development, production and transportation of oil and natural gas contributes on average more than \$100 billion dollars per year to Canada's GDP and \$12 billion dollars per year to government revenues in the form of royalties, income tax, land sales and municipal taxes. Canada's oil and gas industry also employs over 500,000 Canadians directly and indirectly in skilled, high paying jobs and has an Aboriginal employment rate that is 50% higher than the average of all industries in Canada. The Canadian oil and gas industry is recognized as a worldwide leader for technical innovations, environmental responsibility and an early adopter and practitioner of the highest safety standards. As a country, Canada has a stable, democratic political system and a history of vigilantly defending human rights. Given these attributes and the quality and size of our resource base, Canada should be striving to be an even more significant supplier of energy to the rest of the world and we believe that this is an aspirational goal that would mutually benefit all parties.

Over the next 20 years, the world's population is expected to grow by roughly 20% to over 9 billion people. The majority of that growth will be concentrated in some of the poorest regions of the world that are striving to industrialize and lift their populations out of poverty. History has shown that as developing economies industrialize, their energy consumption grows rapidly with success dependent on access to abundant, reliable and affordable energy. Due to high costs, low energy content or intermittent availability, abundant, reliable and affordable for the foreseeable future means fossil fuels. In fact, expectations are that fossil fuels will continue to make up roughly 80% of the global energy supply mix over the next 20 years.

The development and consumption of energy is critical to the sustainability of life, however the production of energy, in all its forms, is not without some impact on the environment. Fossil fuels, including oil and gas, are often blamed for climate change by critics who usually do not acknowledge the environmental or economic impacts of the alternative energy sources they promote. Climate change is a global issue and the developing world should not be expected to slow their rate of industrialization, and henceforth their improvement in living standards, due to energy policies unilaterally pushed upon them by external players in the global energy-climate change debate. The use of cleaner burning Canadian natural gas can help these developing economies wean themselves off of coal without slowing their pace of industrial development. When special interest groups cause the delay and/or cancellation of major oil and gas projects in Canada, they are jeopardizing the economic growth and living standard improvements in these developing economies by denying them access to Canada's abundant, reliable and affordable energy resources. Canada, as a compassionate nation with a rich history of providing aid where needed, must take this into consideration when crafting its energy and environmental policies. Again, Advantage believes that Canadian oil and gas can be a stable and environmentally responsible provider of energy to the rest of the world.

We do however, see two things that could negatively impact the potential for Canada to be a significant energy supplier to the world. The first risk is outside the scope of this submission and involves the costly and inefficient stall and blocking tactics of special interest groups opposed to any fossil fuel development. Although beyond the scope of this submission, we would ask that the Government, in fairness to all Canadians, not provide funding or subsidies to such groups who try to deliberately bring financial and

economic harm to our industry. The second potential risk to Canada being a stable and responsible supplier of energy to the world is the fiscal competitiveness of our oil and gas industry compared to energy producers in other parts of the world; many who do not embrace the previously mentioned attributes that define Canada and whose resource bases are insignificant in size and quality to our own.

The oil and gas business is capital intensive and despite the exceptional size and quality of Canada's oil and gas resource, we still need to compete globally for capital investment to develop our assets. This means that we need to be competitive with other producing countries from a technical, regulatory and economic perspective, with the primary economic differentiator being the relative fiscal policies of each country. Over the past couple of years, a number of changes have occurred to erode our competitive position versus our competition as evident by the level of investment in the Canadian oil and gas sector lagging behind the U.S. Advantage believes the following areas of fiscal governance need to be addressed to return our industry to a level of competitiveness that will ensure that our world class resources, so desperately needed by the rest of the world, are not wasted:

- **Immediate deductibility for tangible capital investments**

For the oil and gas industry, the United States is both our largest trading partner and our largest competitor. The production of oil and gas from both countries moves bilaterally over the border competing for end markets. Recent changes made in the United States to capital deductibility have improved the rate of return of energy projects south of the border and provided more investment certainty. Given the capital intensity of our industry and the need to attract foreign capital, Canada needs to match changes made in the United States to capital deductibility to remain competitive.

- **Energy Intensive Trade Exposed**

At this point in time, the majority of Canada's energy exports go to the United States where there is no federal carbon tax. Alberta and British Columbia currently have a carbon tax program and we have already seen firsthand the impact this has had on our netbacks and profitability. Carbon tax is already the single largest regulatory expense that Advantage incurs and the current level imposed by the Alberta Government is considerably less than the level being mandated by the Federal Government by 2022.

In terms of safety and environmental stewardship, Canada is a world leader in its production of oil and gas. This is something that we in our industry take great pride in and believe all Canadians should be proud of, but such high standards come at a cost. The countries that we export energy to do not have any type of federal carbon tax program in place nor do any of the other countries that make up the world's top ten oil exporters. This means that the cost structure of Canada's energy industry is disadvantaged to our competitors impacting the rate of return for Canadian companies and making it even more difficult to attract capital (domestic or foreign). The carbon tax not only disadvantages Canadian oil and gas production exported to other markets, it also disadvantages Canadian oil and gas producers in our own domestic market. As mentioned, the United States has become a significant competitor to Canada in the production of oil and natural gas. Exports into Canada of natural gas produced in the United States are growing and displacing existing Canadian production in its traditional end markets. Canadian natural gas production

subject to carbon tax is forced to compete in its own Canadian markets against U.S. natural gas that is not subject to any type of carbon tax; an inherently unfair advantage for U.S. producers.

We request that the Federal Government in its next Budget implement a framework of EITE protection to ensure that Canadian crude oil and natural gas production is not disadvantaged in both the Canadian domestic market and in export markets where we compete with other global producers who have no carbon price burden.

- **Application of the Carbon Price Burden**

Although the inconsistent application of carbon tax on natural gas sales in Canada between domestic and imported gas supply is an unintended consequence, it does nonetheless put the long term economic viability of Canadian natural gas producers in jeopardy. Furthermore, if the purpose of “putting a price on carbon pollution is the most efficient way to reduce GHG emissions”<sup>1</sup> and “ensuring a price on pollution across the country is a matter of fairness for all Canadians”<sup>2</sup>, then this unintended consequence contradicts both of these objectives as outlined in the Government of Canada’s Environment and Climate Change webpage. If the objective is to manage the consumption level of a product in some relation to its perceived social cost, then this can only be affectively achieved by allocating and collecting the applicable tax on that product at the end point of consumption rather than the point of production.

We request the Government of Canada increase transparency in the cost of carbon pricing initiatives by developing a framework to apply any associated carbon tax program at the end point of consumption rather than the point of production. This will allow all Canadians to determine for themselves the relative value of energy consumption (in whatever form) versus the cost of the associated emissions. It will also level the playing field ensuring that imported energy supply is taxed at the same rates as the equivalent domestic energy supply without resorting to discriminatory tariffs and will be considerably easier to administer.

In closing, we believe that given the quality and size of our resource base and the skilled workforce that we have to deploy in its development, a healthy oil and gas sector benefits all Canadians in the enhancement of our country’s standard of living. Furthermore, the Canadian resource sector is managed to the highest standards in the world for safety and environmental responsibility and as such all levels of government should ensure that their policies do not unintentionally hinder its competitiveness or deny access of our natural resources to the developing economies of the world that desperately need them in their quest to industrialize and improve their own standard of living. We respectfully request that you consider the recommendation we have submitted so that we can further develop our world class assets to provide generational benefits to all Canadians. Thank you for this opportunity to share our thoughts with you.

Footnotes:

1: ([https://www.canada.ca/en/environment-climate-change/news/2017/05/pricing\\_carbon\\_pollutionincanadahowitwillwork.html](https://www.canada.ca/en/environment-climate-change/news/2017/05/pricing_carbon_pollutionincanadahowitwillwork.html)).

2: ([https://www.canada.ca/en/environment-climate-change/news/2017/05/pricing\\_carbon\\_pollutionincanadahowitwillwork.html](https://www.canada.ca/en/environment-climate-change/news/2017/05/pricing_carbon_pollutionincanadahowitwillwork.html)).