



**Written Submission for the Pre-Budget  
Consultations in Advance of the 2019 Budget**  
by  
**Petroleum Services Association of Canada**

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## **RECOMMENDATIONS**

### **Competitiveness**

**Recommendation #1:** That the federal government conduct a comprehensive review of the Canadian tax system to create a tax regime that will improve business competitiveness, in particular against the U.S., our biggest competitor for investment capital and trade.

**Recommendation #2:** That the federal government extend the Accelerated Capital Cost Allowance (ACCA) permanently to all sectors of the economy allowing immediate deductibility of capital costs for tax purposes in the year in which they occur, in a manner that aligns with similar tax reforms in the U.S.

**Recommendation #3:** That the federal government offer a tax credit against carbon taxes paid for investments in technology that reduce emissions to offset the lack of revenue neutrality of the carbon tax.

**Recommendation #4:** That the federal government withdraw Bill C-69 and engage in further consultation of the numerous issues raised with its current form.

**Recommendation #5:** That the federal government introduce policy and fiscal tools such as a flow-through share instrument similar to the Canadian Exploration Expense (CEE) to incent and facilitate capital investment for decommissioning inactive wells, facilities and pipelines, and inclusive of a new well drilling component for economic upside and longer-term sustainability.

**Recommendation #6:** That the federal government continue to pursue a permanent exemption from U.S. tariffs currently imposed on steel and aluminum.

**Recommendation #7:** That the federal government provide relief for companies impacted by any potential safeguard measures introduced by the Government of Canada for steel and aluminum based on volumes traditionally sourced from the U.S. that must now be sourced globally due to lack of availability or timely availability in Canada.

**Recommendation #8:** 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 through exports of lower emission products such as our natural gas, and in seeking international credits through trade agreements under Article 6 of the Paris Agreement.

### **Innovation**

**Recommendation #9:** That the federal government review the Scientific Research and Experimental Development (SR&ED) program, with a view to: ensuring it is a meaningful incentive for large and small companies; for research whether environmental or not; and that its qualification parameters include emissions-reduction technology and other field-based innovation.

### **Domestic Economic Opportunities**

**Recommendation #10:** That the federal government develop a domestic natural gas strategy to maximize the economic and environmental benefits of our vast natural gas resources while we are not able to export those resources beyond the U.S., while the U.S. is taking less of our natural gas each year, and to displace the import of U.S. natural gas into Canada.

## **OVERVIEW DISCUSSION**

Canada is at a crossroads in deciding its energy future as global demand for safe, reliable and affordable energy grows and concerns of climate change and the need to transition to lower carbon sources of energy meet. We believe that Canada's abundant oil and natural gas resources have an important role to play in our energy future and that the economy and the environment can go hand-in-hand.

The oil and natural gas industry is one of Canada's largest industries investing the largest amount of private capital, supporting over 550,000 jobs across the country<sup>1</sup>, and continuing to reduce its GHG emissions and environmental footprint. Demand for oil and natural gas resources globally is forecast to rise 30% by 2040 according to the International Energy Agency (IEA)<sup>2</sup> and Canada should be a preferred supplier with its responsibly developed resources. Unfortunately, many headwinds facing this sector mean that the opportunity to reduce global emissions while maximizing the economic benefits to Canadians is at stake.

Challenges for the industry include constraints on access to tidewater for global markets – currently resulting in a loss of \$25 billion annually to Canada, taxes that are not in line with or competitive with other producing countries and in particular, the U.S., lengthy regulatory times and complexity, and public perception issues.

The oil and gas services (OGS) sector represents over 450,000 of the jobs in the oil and gas industry which are mostly middle class and include manufacturing, high tech and clean tech jobs. As well, a greater percentage of Indigenous peoples are included in the jobs in our sector versus other industries. This sector also provides Indigenous peoples with numerous entrepreneurial opportunities. The Indian Resource Council reported “the natural resource sector is the largest employer of highly-paid First Nations workers in the country, has supported a dramatic expansion of Indigenous entrepreneurship and has empowered dozens of First Nations communities through major financial and engagement agreements”<sup>3</sup>.

The OGS sector also provides continued innovation, technological advancement and in-the-field experience to Canada's energy explorers and producers, helping to increase efficiency, ensure safety and protect the environment. The same expertise and technologies are also exported around the world given our quality reputation for exemplary work ethics, robust regulations and high environmental standards.

As the world looks to renewables to solve the challenges of climate change, there continues to be a need and place for oil and gas for decades to come. The Canadian OGS sector is world-renowned for its technology, innovation and expertise and we continue to work to reduce carbon emissions and other environmental impacts to supply the world with responsibly-developed energy to help other countries leave more carbon-intensive energy sources such as coal and wood behind and to help raise the people of third-world countries out of energy poverty. Oil and natural gas improves people's lives and until a reliable, affordable, and safe alternative is in place, Canadian oil and gas should be the preferred supplier to the world.

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<sup>1</sup> Prism Economics and Statistics Canada, 2017

<sup>2</sup> International Energy Agency's World Energy Outlook New Policies Scenario

<sup>3</sup> Indian Resource Council report 'First Nations Engagement in the Energy Sector in Western Canada'

## **Competitiveness**

Improving Canada's competitiveness is an urgent priority. The future of jobs and economic benefits of the oil and gas industry that benefit Canada and all Canadians are at risk. In 2015, the Canadian Energy Research Institute (CERI) reported that "over the next 25 years, Canada's oil and natural gas development is expected to contribute \$7.6 trillion to Canada's GDP"<sup>4</sup>. However, the oil and gas industry has seen a massive reduction in capital investment plunging from \$81 billion in 2014 to only \$37 billion in 2017 and capital continues to flee Canada. If steps are not taken now to mitigate the flight of capital, this negative momentum will be difficult, costly and time-consuming to reverse.

Providing a competitive tax regime is essential for this sector and includes a permanent extension of the Accelerated Capital Cost Allowance (ACCA) to compete with our largest competitor, the U.S. Investing in new technologies to reduce emissions while also paying a carbon tax that is not revenue neutral and that our competitors do not have, adds to the cumulative tax burden. An offset credit for investment in new technology against carbon tax paid would help to mitigate this situation.

Under the current investment climate with significantly diminished capital flowing into Canada, in particular for small/intermediate public companies whose numbers have dropped by 50% since 2012<sup>5</sup>, liability and environmental concerns related to inactive wells, facilities and pipelines is growing. Accordingly, we urge the federal government to provide policy and fiscal tools such as a flow-through share instrument (similar to the Canadian Exploration Expense), to facilitate investment in a Sustainable Environmental Energy Investment (SEEI). An SEEI would apportion proceeds 47.5% to decommissioning activity, 47.5% to new drilling; and 5% to an orphan well association, fund or provincial equivalent while creating over 4,000 direct and indirect FTE middle-class OGS sector jobs, providing Indigenous peoples with jobs and business opportunities, contributing to our reputation of responsible environmental performance, and providing governments with \$250 million in fuel and income taxes plus royalties.

Our regulatory regime is overly burdensome. In particular, it is reported that the passage of Bill C-69 will effectively be the death knell for any future large projects in Canada. There are simply too many uncertainties created for investors with this Bill including, but not limited to, untested new assessment processes, vague timelines, broader stakeholder input with no requirement for 'standing', consideration of upstream and downstream emissions that no other industry is subject to, undefined 'adequate' consultation with Indigenous peoples, gender-based analysis, and ultimately calling for a political decision after spending millions or billions on the process. We urge the federal government to reconsider this Bill if the oil and gas industry is to continue to provide jobs and economic benefits to Canada and help reduce global GHG emissions.

U.S. tariffs on steel and aluminum are also impacting the oil and gas industry as pipe, manufactured parts, machinery and other products cross the border several times during production and servicing. As well, while industry is supportive of Canada's retaliatory tariffs, they too are increasing costs, contributing to a lack of competitiveness for the industry.

Given Canada's climate change policies and industry's continued reduction of emissions and high environmental standards, Canada can help reduce global emissions. Hindering the Canadian oil and gas

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<sup>4</sup> Canadian Energy Research Institute, Western Canada Crude Oil Forecasts and Impacts (2015-2035), Western Canada Natural Gas Forecasts and Impacts (2015-2035), and Canadian Oil Sands Supply Costs and Development Projects (2015-2035)

<sup>5</sup> National Bank, Financial Markets, 2018

industry will only serve to facilitate carbon leakage by allowing other countries with less regulations, less concern for the environment, and less human rights to fill global demand.

## **Innovation**

According to the Government of Canada's Science, Technology and Innovation Council's State of the Nation 2014 Report, "Over the past 16 years, R&D investment in the oil and gas extraction industry rose dramatically, increasing almost fourteen-fold from 1999 to 2015". This statement was based on data from the SR&ED program which does not include all R&D conducted by this industry. In fact, many companies in the OGS sector, do not use the program and yet contribute significantly to R&D. We therefore urge the federal government to review the program to ensure effectiveness, relevance and meaningfulness.

## **Domestic Economic Opportunity**

Canada's primary customer, the US, is taking less of Canada's natural gas as they forge full-steam ahead with the development of their own vast natural resources along with LNG facilities for export and so have become our biggest competitor. Canadian projects meanwhile have been cancelled or postponed stranding Canada's natural gas resources and costing Canadians \$10 billion annually. At the same time, Canada is importing natural gas from the U.S. supporting U.S. jobs and economic value.

One solution for this situation is a domestic natural gas strategy. Canada is fourth in the world for its production of natural gas and yet ranks 29th for natural gas vehicle adoption<sup>6</sup>. By seizing the opportunity of domestic use, we can achieve multiple benefits. We can reduce GHG emissions and help to achieve Canada's climate strategy goals by using natural gas as a transportation fuel that reduces GHGs by up to 25% over conventional fuels.

Such a strategy would demonstrate leadership, create jobs and generate tax revenues for government as well. Switching to natural gas however requires infrastructure. This could include investment in infrastructure such as refueling stations and incentives for infrastructure for compressed natural gas (CNG) and liquified natural gas (LNG) facilities for gas-powered vehicles including buses and return to base fleet vehicles, and for power generation that would emit 50% less GHGs than coal.

Natural gas can also be used to replace diesel in our northern communities reducing their cost of energy and providing a cleaner source thereby also reducing GHG emissions.

*The Petroleum Services Association of Canada (PSAC) is the national trade association representing the service, supply and manufacturing sectors within the upstream petroleum industry. PSAC represents a diverse range of companies that provide continued innovation, technological advancement and in-the-field experience to Canada's energy explorers and producers, helping to increase efficiency, improve safety and protect the environment.*

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<sup>6</sup> NGV Global, Current Natural Gas Vehicle Statistics