

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

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Recommendations to ensure the oil and gas industry can maximize Canada's competitiveness

- Recommendation 1: That the Government of Canada 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 of Canada enable accelerated collaborative technology, infrastructure and innovation in the sector, particularly as it relates to commercializing electrification of upstream liquids rich natural gas and downstream liquefied natural gas (LNG) facilities and other technologies with potential to reduce costs and greenhouse gas (GHG) emissions;
- Recommendation 3: That the Government of Canada 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. As Canadian LNG displaces coal-fired power generation in China, there are significant environmental and human health benefits that will be generated through lower emissions, including sulphur oxide (SOX), nitrogen oxide (NOX), carbon dioxide (CO₂) and particulate matter. This should be recognized through a bi-lateral sharing of carbon credits between producing and consuming nations.

The role of the oil and gas industry in ensuring Canada's competitiveness

Canada's oil and natural gas sector is a pillar of our society. It puts Canadians to work from coast to coast, providing quality jobs that Canada's middle class depend on to put food on the table, pay for youth hockey registrations and save for university. The royalties, taxes and economic spin offs generated from oil and natural gas fund schools, new hospitals, greener communities and pensions. Our workforce is world-class by any standard. Canadians are innovators who understand the power of technology and that the environment and profitability can and must go hand in hand. Our hard-working men and women are up to the challenge – proud of the work they do, how they do it, and wanting to serve Canadians and global consumers with clean, reliable and affordable energy. We are asking the Government of Canada to help ensure our industry is globally competitive and has a fair chance to thrive, and serve Canadian families from Newfoundland to British Columbia. An uncompetitive oil and gas sector means a weaker, poorer, less vibrant Canada.

The oil and natural 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 natural gas, the Canadian industry has the potential to continue to supply lower carbon energy and help reduce energy poverty for several decades. To realize this opportunity, Seven Generations 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.

Focused and coordinated action is required immediately 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 endowment, but the value of these resources in responsible development, jobs and economic benefits can only be realized if industry invests the capital necessary to develop these resources. The oil and gas industry in Canada is at a crossroads in terms of near term decisions on several large investment projects.

Canada and the world are currently facing a significant challenge in meeting the growing demand for reliable and affordable energy. We must also continue to respond to the impacts of climate change and the transition to a lower carbon energy system/economy during 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 will have increased by about 30% by 2040. This demand growth is driven by population increases and by greater urbanization and industrialization, largely in Asia. The IEA also projects that in 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 world's fifth largest producer of natural gas, Canada can play a very important role in helping meet global energy demand, reducing global energy poverty and lowering global carbon emissions. This positions Canada to be a global leader in

environmental and social performance. 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. This can be seen within our own borders, where a lack of infrastructure sees foreign countries – many with poor human rights records and lax environmental standards – supply Eastern Canadians with oil and natural gas.

Canada's energy industry is among the largest economic engines driving our economy, both directly and indirectly 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 by Canadian governments, provided that such policies incentivize 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.

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 natural gas to domestic and global markets, produced with leading environmental and social performance standards.***

Canada is losing ground, but we can fix it

Canada continues to have a number of positive attributes in terms of investment attraction, among them the size and quality of the resource and world-class environmental standards. 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 industry is having difficulty attracting new investment capital. While valuations fluctuate, recent industry data indicates that Canadian natural gas producers 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. Upstream U.S. capital investments for exploration and development are up significantly in the past year, whereas Canada's are essentially flat.

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. Canada faces significant market access hurdles that prevent growth of production and the associated benefits. For natural gas, Canada is losing market share to U.S. producers in several North American markets traditionally supplied by Canadian natural gas. Internationally, Canada has not yet participated in the rapid growth of liquefied natural gas (LNG) export markets. This lack of market access means significant price discounts for both

Canadian oil and natural gas, which means lower royalties generated for the citizens of Canada who own the resource.

Some of these competitiveness issues reflect broader market conditions, such as the growth of shale oil and natural gas disrupting North American market dynamics. Some reflect policy and regulatory decisions by federal and provincial governments in Canada. At the same time, other competing jurisdictions are taking action to make their fiscal regimes and regulatory systems more competitive and efficient, exacerbating the situation in Canada.

Ensuring that Canada remains competitive would re-establish the investor confidence required to attract the capital to sustainably grow the Canadian industry and economy.

Canada's oil and natural gas industry has done its part by continuing to reduce costs and GHG emissions intensity across all areas of the business by seeking efficiencies, and by investing in and applying new technology, as well as innovative systems and processes.

However, industry is of the view that these actions alone cannot overcome the competitiveness challenge.

Therefore, actions by governments, including the following, are urgently required to address competitiveness challenges:

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In summary, we believe that Canadian LNG presents a significant opportunity for growth that delivers wide-ranging and long-lasting benefits to Canadians and is aligned with Canada's economic, environmental and social objectives. The recommended actions would help ensure Canada remains

globally competitive, 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 national economic growth – protecting Canada’s middle class, providing opportunities for Indigenous Canadians and contributing to the economic prosperity necessary to support our standard of living and quality of life, while enabling a transition to a lower carbon energy economy.