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

By: ***Chevron Canada Limited***

- **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 while providing the collateral benefit of enhancing the ease of tax compliance and administration;

- **Recommendation 2:** That the government increase the level of protection to approximately 80% coverage of the aggregate GHG 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 3**: That the government and provincial governments focus on creating the appropriate fiscal environment to establish a multiple major project LNG industry in Canada;

- **Recommendation 4:** That the government enable accelerated collaborative technology, infrastructure and innovation in the sector, particularly as it relates to commercializing electrification of upstream natural gas and liquids, and downstream LNG facilities and other technologies with potential to reduce costs and GHG emissions.

- **Recommendation 5:** That the government proceed with their commitment in the 2017 budget to review the Scientific Research and Experimental Development (SR&ED) tax credit program, with a view to making it more effective through risk-sharing and inclusion of operational innovation within scope;

- **Recommendation 6:** 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 LNG exports, and in seeking international credits through trade agreements under Article 6 of the Paris Agreement;

Introduction

Chevron Canada Limited (Chevron Canada) is making this submission to the ***Pre-Budget Consultation in Advance of the 2019 Budget*** to reinforce the findings and recommendations of the federal/provincial government-industry Joint Working Group (JWG) and Canadian Association of Petroleum Producers. Chevron Canada wishes to emphasize the need to enhance the competitiveness of the oil and gas industry in Canada, and the importance of establishing a competitive Canadian Liquefied Natural Gas (LNG) industry. Through these recommendations, Canada can play a leadership role in the global transition to a lower carbon energy economy, with a vision as the preferred supplier of cost and carbon competitive oil and gas to domestic and global markets, produced with leading environmental and social performance standards.

About Chevron Canada

Chevron Canada is an indirect, independent subsidiary of Chevron Corporation, one of the world's leading integrated energy companies. Since 1938, Chevron Canada has been exploring for, developing, producing and marketing crude oil, natural gas and natural gas liquids. As a pioneer in the industry, Chevron Canada has made numerous large-scale oil and gas discoveries, contributed to the technological advancement of Canada's oil and gas industry, and has supported the economic progress and prosperity of Canada.

Today, Chevron Canada has interests in the proposed Kitimat LNG project and shale gas acreage in Northeast British Columbia; an industry leading position in the liquids-rich shale gas Kaybob Duvernay play in Alberta; the Athabasca Oil Sands Project; exploration, development and production projects offshore Newfoundland and Labrador including Hibernia and Hebron; and exploration and discovered resource interests in the Beaufort Sea / Mackenzie Delta region of the Northwest Territories.

As an independent subsidiary of a major global energy enterprise, Chevron Canada investment opportunities must be competitive to attract capital relative to other options in the Chevron global portfolio. Increasingly, Canadian opportunities are challenged to attract this investment relative to the United States, where Chevron continues to increase investment.

The Natural Gas and Liquids Opportunity for Canada

Canada has a world-class abundance of natural gas and liquids from shale and tight reservoirs. As an energy resource it is almost equivalent to Canada's oil sands, it can meet domestic gas demand for over 300 years and provide Asian countries with clean energy to support their growing economies. However, Canada is not alone having a wealth of natural gas that is available to meet growing global demand. For many decades, the United States was Canada's largest natural gas customer but we have seen firsthand the dramatic shift towards U.S. energy independence and its adverse impact on the Canadian energy economy. The significant tight oil and shale gas development in the U.S. continues to threaten Western Canadian producers and has permanently harmed our traditional markets.

The IEA forecasts continued global energy demand growth through 2040 and beyond. The world will need more energy in every form, particularly more natural gas. Supported by demand growth and international climate policy objectives, global natural gas demand is expected to grow forty-five per cent by 2040. Eighty per cent of gas demand growth is expected to take place in the developing economies of China, India and other countries in Asia, with much of that growing demand being met with imported LNG. Natural gas provides lower GHG and pollutant emissions relative to other fossil fuels, while meeting heating, power and mobility needs for a growing global economy.

A significant opportunity exists for new competitive projects to supply LNG to Asia commencing in the middle of the next decade and potentially sooner with stronger economic growth and faster natural gas displacement of coal and oil. The Conference Board of Canada has estimated that a 30 million tonne per annum LNG industry will deliver $7.4 billion annually to Canada's GDP and about 65,000 jobs per year over 30 years. It is clear a viable Canadian LNG industry is important to Canada.

LNG customers seek secure, reliable and cost competitive LNG to meet their long-term energy needs. Canada has all the required attributes to be a global LNG supplier of choice given our enormous resource, stringent regulatory and climate policies and market proximity, but only if Canada can provide a globally cost competitive supply. If not supplied by Canada, the jobs and economic benefits enabled by LNG will be captured by countries that do not share Canada's rigorous environmental and progressive social benefits sharing approach.

Oil Sands and Offshore

Development of Canada's oil sands and offshore Atlantic Canada oil resources have been major contributors to Canada's economy over the past decades and can continue to add to Canada's prosperity many decades into the future. The development of these resources has driven global leading innovation in technologies and significant reductions in environmental impacts. In parallel, these developments have significantly contributed to employment, taxes and royalties that support programs Canadians value. While the following comments specifically focus on LNG, natural gas and liquids, they are also germane to oil sands and offshore oil development.

The Urgency for Action

Although Canada has been able to grow its oil and natural gas resource through the application of innovative technologies, Canadian gas production has declined over the past 15 years. Canada has also seen an exodus of private energy investment and cancelled projects in the past several years. While this has occurred, the U.S. has seen significant energy sector investment, production and job growth. Since 2013, five U.S. LNG export facilities have been approved and are either exporting LNG or under construction. The International Energy Agency (IEA) expects the U.S. will be the world's largest exporter of LNG by the mid-2020's.

Recent favourable U.S. corporate tax and depreciation changes, as well as continued growth in U.S. tight oil and associated gas production, add to the challenge and have increased volumes of U.S. low cost supply to North American natural gas and global LNG markets. This abundance of low-cost natural gas has also fueled major investments in U.S. petrochemical, manufacturing and other valued added industries.

For Canada to capitalize on growing Asian LNG market opportunities, government action is needed now to create a comprehensive and competitive fiscal framework that supports continued investment in projects such as Kitimat LNG and liquids. If Canada is to sustain and grow the potential benefits from one of our most significant energy industries, including the thousands of quality jobs and opportunities for Indigenous peoples, direct action to diversify market access must be an immediate focus.

Without additional market access and LNG exports, Western Canadian natural gas supplies will continue to remain captive to an over supplied North American market. The current situation has negative production and price impacts, with Western Canadian gas selling at a large discount relative to U.S. supplies, resulting in lower resource value, government royalties and revenues. Adding to this value loss, the exports of Canadian natural gas are now directly and indirectly supporting numerous U.S. value added industries, including their expanding LNG exports. Declining gas and oil investment in Canada has a direct impact on families and communities in both producing regions and in major Canadian industrial sectors across Canada including steel and manufacturing.

Government and Industry Collaboration to Address the Competitiveness Gap

In response to natural gas and liquids competitiveness challenges and changing market conditions, Chevron Canada's focus over the past several years has been on achieving substantial unit cost across all our assets, including Kitimat LNG. While industry has reduced costs to reflect this market reality, government has not made similar adjustments to the fiscal and regulatory framework, and in many instances have added material costs to our industry. Although Chevron Canada continues efforts to reduce costs to further narrow the competitiveness gap with the U.S., ***we believe that if a viable Canadian natural gas and liquids industry is to be maintained, and a Canadian LNG industry is to be established, further unit cost reductions through federal and provincial fiscal and infrastructure initiatives are necessary.***

We support citizens of the provinces and Canada receiving a fair return for their resources. However, the collective fiscal framework must also recognize the unique attributes and challenges facing the industry in Canada, and provide top tier projects a reasonable return on their substantial risked investment. To achieve an attractive investment climate in Canada, more equitable risk sharing and reductions in federal and provincial fiscal costs are required. The issue will only become more pronounced as we see many of our global competitors continuing to reduce business taxes, regulatory complexity and costs, further widening the competitiveness gap with Canada.

Therefore, action by governments, including the following recommendations in aggregate, are urgently required to address competitiveness challenges:

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 while providing the collateral benefit of enhancing the ease of tax compliance and administration;

2. That the government increase the level of protection to approximately 80% coverage of the aggregate GHG 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;

3. That the government and provincial governments focus on creating the appropriate fiscal environment to establish a robust multiple major project LNG industry in Canada;

4. That the government enable accelerated collaborative technology, infrastructure and innovation in the sector, particularly as it relates to commercializing electrification of upstream natural gas and liquids, and downstream LNG facilities;

5. That the government proceed with the commitment to review the SR&ED tax credit program, with inclusion of operational innovation within scope;

6. That the government take a leadership role in gaining international recognition of Canada's progress in reducing global GHG emissions via LNG exports, and in seeking international credits under Paris Agreement Article 6.

Chevron Canada believes that Canada's oil and gas sector presents a significant opportunity for inclusive growth which provides broad benefits to all Canadians and is aligned with government's economic, environmental and social objectives. The collective recommended actions would help ensure Canada remains globally competitive, aid in restoring investor confidence, and provide the platform for a broader consensus on the future of the Canadian oil and gas industry. This can lead to significant growth of the sector, protecting and growing Canadian jobs, providing opportunities for Indigenous Canadians, contributing to the economic prosperity necessary to support our quality of life, and enabling the transition to a lower carbon energy economy.