2018 Federal Pre-Budget Submission

by

Petroleum Services Association of Canada

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Introduction

The Petroleum Services Association of Canada (PSAC) appreciates the opportunity to provide input into the federal government's 2018 budget consultations. We ask that consideration be given to our recommendations that offer strategies for positive environmental and economic outcomes, greater Indigenous participation, workforce development and innovation.

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.

The oil and gas industry, a significant economic driver for Canada, has faced an unprecedented downturn since 2014 that resulted in plunging capital investment, drastic reductions in activity levels and layoffs estimated at a hundred-thousand in Alberta alone. As industry struggles to adjust to lower commodity prices that appear to be here for the long-term, the lack of infrastructure for tidewater access to international markets along with climate policies are hampering our competitiveness and our ability to return to historic levels of economic contribution and job creation that has helped create wealth and a high standard of living for all Canadians.

Before the impact of this downturn was fully recognized, the Canadian Energy Research Institute (CERI) in 2015 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." As well, 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".

As the reach and scope of this industry is Canada-wide, the effects of the downturn have rippled across the country. This is not surprising given the extent of manufacturing undertaken and supply chains across the country for oil and gas development. The oil and gas services (OGS) sector in 2013, employing over 883,000 people across the country, mostly middle-class, contributed over $119 billion to Canadian GDP and paid more than $30 billion in federal and provincial taxes, in addition to the contributions of the exploration and production (E&P) companies.

As the world looks to renewables to solve the challenges of climate change, there continues to be a need and place for oil and natural gas for decades to come. The Canadian OGS sector is world-renowned for its technology, innovation and expertise and we will continue to work to reduce carbon emissions and other environmental impacts to supply the world with responsibly-developed, clean 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. To do this, we would like to work with government on policies that will stimulate competitiveness, investment and productivity to continue to provide economic benefits and to fund innovation and R&D.

Accordingly, PSAC would like to offer the following recommendations for Budget 2018.

Environmental and Economic Strategies

1. A Domestic Natural Gas Strategy

Canada's primary customer, the US, is importing less and 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 are being cancelled or postponed stranding Canada's natural gas resources.

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 27th for natural gas vehicle adoption. 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 for power generation that emits 50 per cent less GHGs than coal and as a transportation fuel that reduces GHGs by up to 25 per cent 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 infrastructure for power generation and refuelling to incent gas-powered vehicles including buses and fleet vehicles that return to base.

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.

PSAC Recommends:
Develop a natural gas strategy that includes investment in infrastructure for natural gas vehicles such as refueling stations to facilitate adoption of the fuel and includes incentives for infrastructure for compressed natural gas (CNG) and liquified natural gas (LNG) facilities for domestic use.

2. Special Purpose Trusts (SPT) - creating a new Canadian industry sector

As Canadians focus more on the environment and as the oil and gas industry has suffered from an unprecedented downturn, PSAC advocated for the decommissioning of orphan wells and facilities to stimulate employment while benefiting the environment and Canada's reputation as a responsible steward of the land. Building on this work by facilitating the decommissioning of the tens of thousands of wells that are currently inactive across the country, could provide the basis for an entirely new industry sector thereby creating jobs, generating tax revenue, and improving environmental outcomes.

Many Indigenous peoples are also interested in participating in this type of work which would lead to skills development and create business opportunities.

To facilitate timely decommissioning, a financial instrument such as a special purpose trust (SPT) would enable companies to set aside funds while earning cash flow from production. As environmental regulations continue to become more stringent the costs for decommissioning become more than anticipated at the outset. A SPT would allow a company to invest funds that could grow to meet this future obligation. We suggest offering some form of tax relief to incent this investment and the creation of an industry sector that will generate tax revenues.

PSAC Recommends:
Introduce tax policy that would incent exploration and production (E&P) companies to deposit funds into a Special Purpose Trust (SPT) for the sole purpose of decommissioning wells, pipelines and facilities.

3. Carbon Offset Duties on Imported Oil, Natural Gas and Mined Materials

Canada's climate strategy is impacting our global competitiveness. At the same time, while Canada has the third largest oil reserves in the world and is the fourth largest producer of natural gas, we import oil and natural gas from foreign sources that are not subject to the environmental regulations and standards that we are and that have no price on carbon.

PSAC Recommends:
Impose carbon offset duties on imported natural gas, oil and mined materials from non-compliant regions of the world to recognize the difference in environmental policy standards and climate change impact in relation to world-leading Canadian practices and to normalize for carbon levies applied to our domestically produced resources. In other words, create a level playing field in our own market. Evangelize this approach globally to achieve and sustain a global standard.

Indigenous Education and Programs

4. Funding to Increase Literacy and Graduation Rates

We support the goal of improved relations with Canada's indigenous peoples. As much of the oil and gas development in Canada is on or close to traditional lands, we support initiatives that increase the ability of indigenous people to participate in opportunities for employment and entrepreneurship. Primary and secondary school education are fundamental building blocks for future opportunity.

As well, the indigenous population in Canada represents a large, young, labour pool that is welcome as our population continues to age and retire.

Pilot programs on Canada's Reserve schools have shown that by helping children learn to read by grade three can often make the difference between finishing school and dropping out. In Canada, 90 per cent of Canadians have a minimum high school education where only 40 per cent of indigenous peoples on reserve do so.

Funding of literacy programs, such as the pilot program noted above, is an opportunity to improve participation rates in the labour force, improve economic outcomes for indigenous people and increase health and social engagement.

PSAC Recommends:

Provide funding to reserve schools equal to off-reserve schools.

Labour Force Development

5. Canada Job Grant

The OGS sector conducts much of its workforce training in-house as the specific training required to perform oilfield services such as hydraulic fracturing or snubbing, is not offered at universities and colleges. This places a considerable burden on companies that must develop their own training programs and have qualified instructors on staff. As the sector struggles to regain profitability while low commodity prices persist along with pressures to keep prices low, we would like to suggest that the Canada Job Grant criteria be revised to include in-house to assist companies with their on-the-job training requirements and productivity as they look to hire to replace the thousands of workers that were laid off during this devastating downturn.

PSAC Recommends:
Revise Canada Job Grant to include in-house training.

Competitiveness

6. Innovation, Productivity and Automation

The OGS sector is also world-renowned for its innovation and expertise but to stay on top and compete globally, investments must be made in R&D, technology development and innovation, efficiencies, productivity and automation as the shortage of skilled labour continues. While the entrepreneurial spirt that has seen this sector invest and grow to its current size and reputation, its ability to fund capital investment for such purposes today has been significantly impacted by the downturn.

PSAC Recommends:
Tax incentives for investments in innovation, technology development, efficiencies, productivity, and automation.

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