

A NATIONAL VISION FOR OIL AND NATURAL GAS

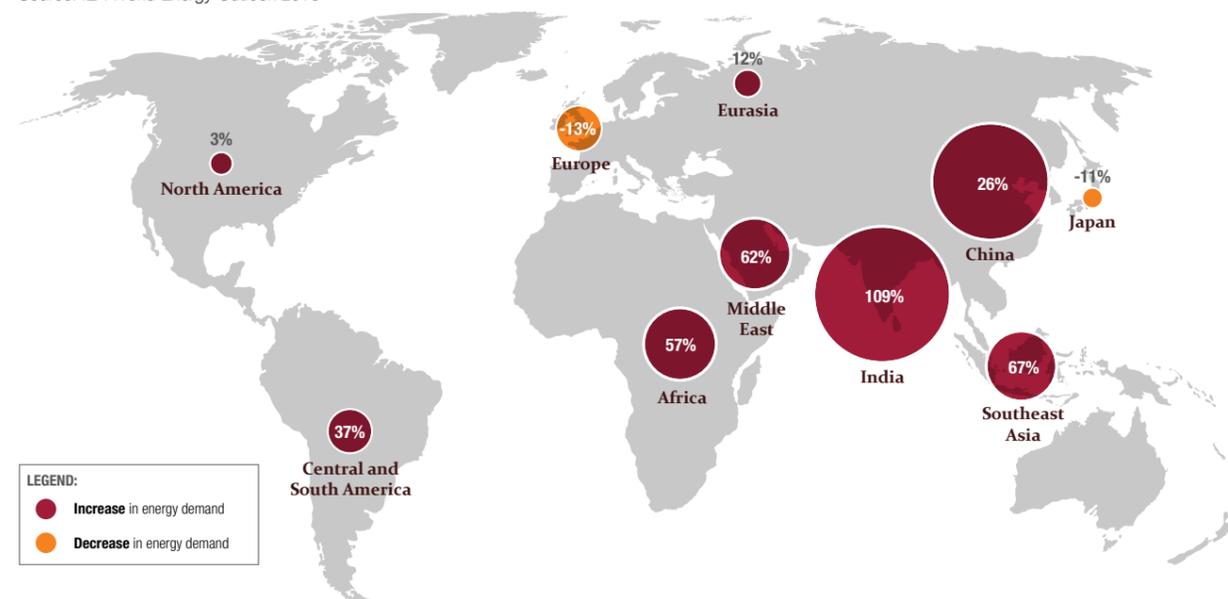
Canadians share a set of values that drive the way we do business. We agree that environmental responsibility is important, that the full participation of Indigenous peoples in the Canadian economy is a priority, and climate change requires action both domestically and globally. Canada's oil and natural gas sector is aligned with these shared values and is poised to play a significant role in achieving them, while at the same time promoting Canada-wide prosperity.

Canada can also seize an opportunity that exists beyond our borders. By 2040, emerging markets in China, India and Southeast Asia are expected to drive a 27-per-cent increase in energy demand. Canada has enormous natural resources, plus the innovation, high standards for safety and environmental performance, and technological expertise to be the world's energy supplier of choice. Canada can make the world a better place by providing reliable, affordable and responsibly produced energy that will help raise standards of living around the world. We can do this while reducing net global greenhouse gas (GHG) emissions, and developing world-leading environmental technology and expertise.

If Canada does not act to support and grow our oil and natural gas production and exports, other suppliers – with lesser environmental and social standards – will fill the increasing global demand for energy. If Canada does act, there will be significant socio-economic benefits across the country. Incremental investment averaging \$20 billion annually is possible, which would support approximately 120,000 direct and indirect jobs a year through 2030, with an extra \$45.4 billion in economic activity in 2030.

Growth In Energy Demand Around the World: 2017–2040

Source: IEA World Energy Outlook 2018



According to the International Energy Agency, improvements in energy efficiency and use of lower-carbon energy sources will help moderate energy demand in developed nations. However, population growth and improved standards of living will drive increased energy demand, especially in Asia.

As a nation, we must define a strategic, long-term vision for oil and natural gas growth. Within that framework, Canada can make key decisions to:

- Meet domestic and international demand for oil and natural gas with responsibly produced Canadian resources
- Obtain full value for our resources
- Expand domestic economic benefits
- Increase opportunities for Indigenous prosperity
- Drive environmental performance through investment in innovation and technology
- Contribute to net global emissions reduction

Goals

Within the next federal government mandate period – 2019 to 2023 – the Government of Canada must create conditions to:

- Support completion of currently proposed major pipeline projects and actively support development of additional projects.
- Supply Canada's domestic oil and natural gas needs with domestic production, in particular by facilitating transportation of oil and natural gas from Western Canada to markets in Central and Atlantic Canada.
- Increase the participation of Indigenous communities and businesses in Canada's oil and natural gas sector.
- Double current investment in the sector within four years, to return to or surpass 2014 investment levels.
- Grow Canada's contribution to global oil and natural gas supply.
 - + Canada becomes the world's fourth-largest oil producer, surpassing Iraq and China.
 - + Canada becomes the world's third-largest natural gas producer, surpassing Iran and Qatar.



MARKET ACCESS

What's The Opportunity?

With improved market access, Canada has an opportunity to obtain full value for our resources and help reduce net global GHG emissions.

Canadian producers are currently faced with insufficient transportation capacity for both oil and natural gas, limiting Canada's ability to serve existing domestic and U.S. markets, and preventing access to growing overseas markets. Canadian oil and natural gas can become the global benchmark for responsible production if our energy is able to access worldwide markets through a robust pipeline system, significant liquefied natural gas (LNG) development, and seaport facilities for export.

Recommended Actions

The Government of Canada must work to increase and diversify access to markets. Specific actions include:

- Become a domestic and international champion of Canada's oil and natural gas, and ensure no government policies or decisions restrict access to global markets.
- Implement policies that commit Canada to getting our oil and natural gas resources to markets in a timely manner, such as:
 - + Complete the construction of the Trans Mountain Expansion Project by 2022.
 - + Actively support completion of the Keystone XL and Line 3 Replacement pipelines.
- Create and support the conditions to advance additional pipelines to improve international market access.
- Create and support the conditions to complete four major LNG projects, on Canada's West and East Coasts.



REGULATORY POLICY

What's The Opportunity?

Canada can realize significant economic benefits if governments support oil and natural gas development with competitive regulatory policies while maintaining high environmental standards.

The federal government has a duty to ensure national prosperity through a regulatory regime that assesses and approves oil and natural gas projects in a timely fashion, and provides certainty to Canadians and investors.

The current regulatory framework does not support growth of the upstream oil and natural gas sector, because the framework is duplicative, inefficient and creates investor uncertainty, resulting in negative effects from reduced capital investment to reduced government revenues. There is a significant opportunity to enable a more streamlined regulatory process and achieve greater competitiveness while maintaining desired environmental and regulatory outcomes.

Recommended Actions

- Establish a whole-of-government approach toward outcomes-based regulations to ensure the energy sector is able to comply with government regulations in the most effective and efficient manner.
- Ensure that regulations enable responsible resource development in a timely manner – not act as barriers to development.
- Recognize that the constitutional authority to develop natural resources rests with the provinces, and minimize duplication between federal and provincial project assessment processes and reporting requirements. In particular:
 - + Recognize that provinces have jurisdiction for infrastructure such as in situ and other resource extraction, co-generation, upgrading, and refining.
 - + Adopt a 'one project, one window' approach to project evaluation.
 - + Reasonably scope assessments, public participation and clarify Indigenous consultation.
 - + Respect the expertise and decisions made within the assessment process, limit court challenges to matters of law and jurisdiction, and eliminate opportunities to re-litigate matters of fact.
- Amend the Species at Risk Act (SARA) to include tools and approaches that enable a more timely and effective response to species recovery, and include a more robust socio-economic benefits analysis when assessing appropriate protection actions.



INDIGENOUS PROSPERITY

What's The Opportunity?

Canada's oil and natural gas sector presents a significant opportunity for inclusive and sustainable economic growth, prosperity, and self-determination for Indigenous communities that is aligned with the Government of Canada's reconciliation objectives.

Strong and responsible resource development contributes to economic reconciliation and Indigenous self-determination by supporting sustainable Indigenous economies and communities. Conversely, policies that harm the sector also harm the potential for Indigenous prosperity.

Resolution of broad reconciliation issues is the responsibility of the Government of Canada; these cannot be addressed on a project basis. Success in resolving these overarching issues will facilitate growth of mutually beneficial relationships between the resource sector and Indigenous peoples.

Recommended Actions

CAPP calls on the Government of Canada to:

- Recognize the role that oil and natural gas development has played in supporting Indigenous self-determination and reconciliation through economic opportunities.
 - + Engage the resource sector in dialogue related to Indigenous policy development.
 - + Establish clear guidelines on consultation goals and objectives, and appropriate boundaries on scope and timelines related to major projects.
- Enhance Indigenous economic participation by building capacity in the areas of business and management and accelerate the growth of Indigenous entrepreneurship and partnerships by:
 - + Identifying and using the best practices being applied in private sector relationships.
 - + Supporting the creation and funding of mentorship programs.
 - + Greater collaboration with Indigenous peoples and industry on education and skills development training.

Industry Growth Drives Opportunity



JOBS
2016

11,900 6% of individuals working in Canada's oil and natural gas industry identified as Indigenous.



PAYMENTS TO INDIGENOUS GOVERNMENTS
Jun. 1-Dec. 31, 2017

\$55 million in payments (from conventional oil and natural gas activity) made to Indigenous governments in Canada.



PROCUREMENT
2015-2016

\$3.3 billion spent by oil sands companies on procurement from Indigenous-owned companies.

CLIMATE AND INNOVATION

What's The Opportunity?

Advancing technology and innovation can help Canada's oil and natural gas reduce global emissions.

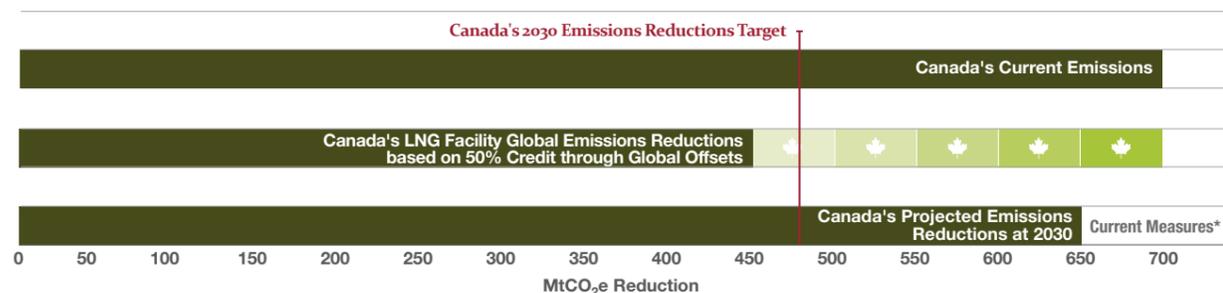
Getting climate policies right has huge long-term implications for the future of Canada's oil and natural gas sector, for Canada's economy, and for reducing emissions globally. Canada has two key opportunities:

- Develop and implement technologies to further reduce domestic emissions intensity from oil and natural gas production, and export our responsibly produced resources to global markets.
- Export LNG to markets – especially in Asia – where Canadian LNG can displace more emissions-intensive energy sources and have a major impact on net global emissions reduction.

For more information on Canada's LNG opportunity, see <https://www.capp.ca/publications-and-statistics/publications/333653>.

Canadian LNG Facilities Can Help Canada Achieve National Emissions Targets, and Global Emissions Reductions

*Canada's GHG and Air Pollutant Emissions Projections - 2018, Government of Canada



Recommended Actions

The Government of Canada must develop climate policies that:

- Ensure flexibility, encourage innovation, promote investor confidence and allow for the growth of GHG-efficient operations.
- Remove federal duplication of existing provincial methane reduction policies.
- Withdraw the proposed Clean Fuel Standard (CFS) in its entirety, as it will increase costs to both industry and Canadians. If the CFS proceeds, it should provide EITE protection to the oil and natural gas sector, allow GHG reductions to earn CFS credits, and provide sufficient compliance flexibility for obligated parties
- Include a large-emitter framework that prioritizes investment in technology and emissions reduction and achieves results in a cost-effective manner that protects competitiveness.
- Prioritize investment in emissions reduction technology in the oil and natural gas sector.
- With respect to Article 6 of the Paris Agreement (which will define a system for international emissions credits), Canada should take a position that allows Canada's oil and natural gas resources to play an international role in generating net emissions reductions and obtain offset credits for Canada.
 - + Assert the value of using Canadian oil and natural gas, which have substantive emissions savings over other energy sources, to develop international recognition of Canada's contribution to net global emissions reduction.
 - + Acknowledge that Canada's only credible path to meeting its Paris commitments is through increased exports of Canadian natural gas that is enabled by a well-defined Article 6.

FISCAL AND TAX POLICY

What's The Opportunity?

Creating a national fiscal framework that is globally competitive is critical for Canada's oil and natural gas sector – and the national economy.



Canada's fiscal regime – taxes, royalties and other fees – has a significant impact on capital investment and industry competitiveness. The Canadian oil and natural gas sector competes for investment in a global context. Currently, major producers are divesting assets and leaving Canada to pursue resource development opportunities elsewhere. Not only is investment critical to developing technologies that allow Canada to grow production while improving environmental performance, investment also supports highly technical, knowledge-based jobs not easily replaced in other sectors. A globally competitive fiscal framework in Canada would stimulate investment, encourage innovation and firmly position Canada's oil and natural gas as the world's energy supply of choice.

Recommended Actions

Comprehensive tax and fiscal reform is needed to create a fiscal framework that enables Canada to compete globally for markets and investment.

- Establish 100-per-cent immediate capital expenditure deductibility, equivalent to similar deductibility that applies to other industries.
- Ensure competitiveness and create protection mechanisms for EITE sectors that include small and large producers.
- In consultation with the sector and the investment community, develop innovative approaches to access capital for small-to medium-sized oil and natural gas companies.
- Ensure Canada's offshore sector remains globally competitive.
- Acknowledge that Canada's oil and natural gas sector is not subsidized.

WHY OIL AND NATURAL GAS MATTERS TO ALL CANADIANS

What's The Opportunity?

With long-term solutions that improve investor confidence, increase market access and enhance competitiveness, Canada's oil and natural gas sector can expand economic and social benefits across Canada.

Although the oil and natural gas sector is vital to Canada's economy, regulatory, fiscal and market access challenges are restricting the sector's growth. This sector is a major economic driver, boosting Canada's gross domestic product (GDP), funding infrastructure, education, health care and other goods and services, and supporting stable middle-class jobs across the country. Resource development has a particularly positive economic impact on remote and Indigenous communities, creating jobs and directly supporting community initiatives. Growing oil and natural gas development means growing these and other benefits across Canada.

Addressing the challenge of climate change is bigger than one industry, one province or one country – therefore, a long-term, global approach is essential. By increasing exports to expanding Asian markets, Canada has an opportunity to reduce net global emissions if Canadian oil and natural gas are used to displace less efficient fuels and to credibly meet its Paris commitments through a well-defined Article 6. Canada's emissions are less than two per cent of the worldwide total – but our opportunity to contribute to net global emissions reduction is enormous.

The socio-economic benefits of improving the oil and natural gas sector's competitiveness are significant. CAPP expects an average incremental \$20 billion of annual investment in the sector if competitiveness challenges are addressed. This would result in an extra \$45.4 billion in economic activity (real GDP) in 2030. Furthermore, the incremental oil and natural gas activity provides significant growth of inclusive employment opportunities for Canadians, sustaining the addition of ongoing 120,000 direct and indirect jobs on average through to 2030. Incremental government revenues are expected to average \$7.5 billion per year.



LEARN MORE

Go to www.capp.ca/economicseries to find CAPP's series of reports that detail Canada's role in the world's future energy mix, climate change initiatives and innovation, economic reconciliation with Indigenous peoples, market access challenges and benefits, including the potential for significant global emissions reduction through the use of Canadian LNG in Asia-Pacific markets, and competitiveness and fiscal regime challenges.

CAPP has also produced a library of videos illustrating innovative technologies that address everything from improved habitat restoration to reducing emissions. Go to www.energytomorrow.ca.

The Canadian Association of Petroleum Producers

(CAPP) represents companies, large and small, that explore for, develop and produce natural gas and crude oil throughout Canada. CAPP's member companies produce about 80 per cent of Canada's natural gas and crude oil. CAPP's associate members provide a wide range of services that support the upstream crude oil and natural gas industry. Together CAPP's members and associate members are an important part of a national industry with revenues from crude oil and natural gas production of about \$101 billion a year. CAPP's mission, on behalf of the Canadian upstream crude oil and natural gas industry, is to advocate for and enable economic competitiveness and safe, environmentally and socially responsible performance.

CAPP's Federal Energy Platform is meant to inform Canadians of the concerns and vision of the oil and natural gas sector in a manner that is non-partisan and is not advertising. The business of energy is the business of every federal government regardless of its political persuasion. CAPP does not support or oppose any particular registered party or candidate.





CANADA'S OIL & NATURAL GAS PRODUCERS

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