CANADA'S OIL AND NATURAL GAS SECTOR:

SETTING THE RECORD STRAIGHT ON "SUBSIDIES"

CAPP
CANADA'S OIL & NATURAL GAS PRODUCERS

INDUSTRY CHARACTER

CANADIAN CONTEXT: DEFINING A SUBSIDY

The Canadian Association of Petroleum Producers (CAPP) agrees that government support of a particular industry or company via direct spending from the public purse and/or credit support, should be deemed a subsidy.

However, it is erroneous and misleading to deem measures of the federal tax framework that seek to enable economic activity and maintain the effective neutrality of the tax system, a subsidy.

In Canada, all businesses can deduct certain expenses and the oil and natural gas industry is no different. Tax measures of the oil and natural gas industry are not subsidies. These measures are inserted to ensure the neutrality of the tax system between sectors that differ in their capital intensity, revenue stream generation, and production/life cycles thereby removing the tax bias against them.

ALL BUSINESSES CAN DEDUCT CERTAIN EXPENSES

BAKERIES	TECH COMPANIES	OIL/NATURAL GAS
SUPPLIES	HARDWARE	EXPLORATION
LABOUR	SOFTWARE TOOLS	PRODUCTION & TRANSPORT

THE TERMINOLOGY MIGHT BE DIFFERENT, BUT OIL AND NATURAL GAS TAX MEASURES ARE JUST LIKE TAX DEDUCTIONS AVAILABLE TO ALL CANADIAN BUSINESSES.

TAX MEASURES OF OUR INCOME TAX SYSTEM: MAXIMIZING ECONOMIC VALUE FOR THE PUBLIC

For oil and natural gas companies operating in Canada, their taxable income is computed in accordance with the common principles of business and accounting practice, and in general, there is not a special tax regime for oil and natural gas producers. *Source: Global Oil and Gas Tax Guide 2017, Ernst and Young*

Such provisions in the Income Tax Act are designed to encourage and support the exploration of oil and natural gas by recognizing certain business challenges that are unique to the industry. These provisions are also consistent with those available to other industries that require significant upfront capital investments.

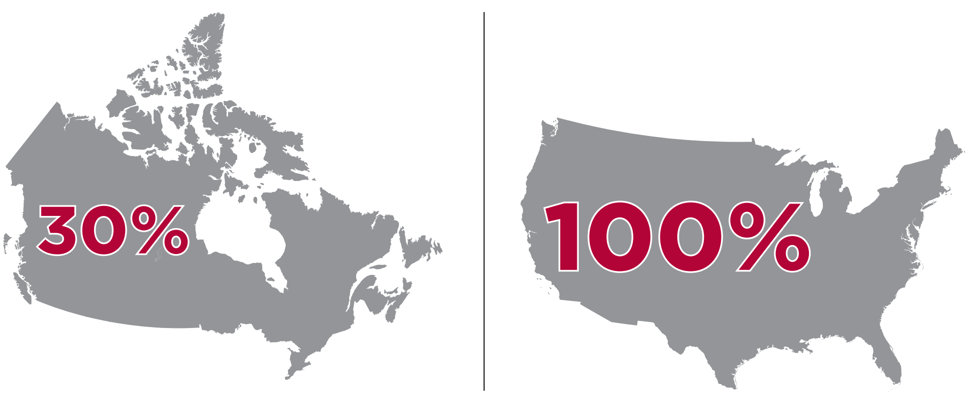
CANADA'S COMPETITIVENESS AT STAKE

The March 2017 Federal Budget provides a prime example of how even a relatively small change can hurt Canada's competitiveness. Limiting the Canadian Exploration Expense (CEE) has already raised Canada's marginal effective tax and royalty rate by half of one percentage in comparison to its competitors.
Source: A 2017 Update of Taxation of Oil Investments in Canada and the United States: How US tax reform could affect competitiveness, Crisian and Mintz, 2017

In the United States, all intangible drilling costs are **100% DEDUCTIBLE** in the year incurred for most companies.

In Canada, only unsuccessful exploration drills are deductible at that pace, as all other intangible drilling costs are deductible at 30 per cent annually.
Source: Global Oil and Gas Tax Guide 2017, Ernst and Young

INTANGIBLE DEVELOPMENT DRILLING COMPARISON



LIMITING THE CANADIAN EXPLORATION EXPENSE (CEE) HAS ALREADY RAISED CANADA'S MARGINAL EFFECTIVE TAX AND ROYALTY RATE BY **HALF OF ONE PERCENTAGE** IN COMPARISON TO ITS COMPETITORS.