CAPP CANADA'S OIL & NATURAL GAS PRODUCERS

April 15, 2020

The Honourable Bill Morneau, M.P.
Minister of Finance
House of Commons
Ottawa, ON
K1A 0A6

Dear Minister Morneau:

Re: Focused Efforts to Support Oil and Gas Industry Liquidity and Jobs

On behalf of the Canadian Association of Petroleum Producers (CAPP) and our member companies, we would like to thank the government for the bold actions it has taken to date during this health and economic crisis. For our member companies, health and safety continues to be a top priority and we are committed to supporting the government and the measures it has taken to protect the health of Canadians and halt the spread of COVID 19. At the same time, the crisis poses a unique threat to our industry and our ability to preserve jobs and investment; the right near-term responses by government will be crucial.

The Canadian upstream industry has already announced approximately $6.5 billion in cuts to capital expenditures for this year (an approximate 30% reduction) and experienced an erosion of $150 billion of enterprise value since 2019. We believe it is important for government and industry to work together on a substantial and comprehensive response to keep our industry viable so that our members can continue to create jobs and contribute to Canada's prosperity.

Your government has already taken early and impactful economy wide action, including:

- Direct transfers to families and to stabilize the economy and boost consumer confidence
- Benchmark interest rate reductions totaling 1.5 percentage points
- A new wage supplement program for companies that have seen a substantial revenue decline.

While these supports will help the broader Canadian economy, there is an urgent need for supplemental and focused relief for the oil and gas industry to provide liquidity and preserve jobs during this crisis. CAPP estimates that industry will need approximately $27 to $30 billion in liquidity support in 2020.

We anticipate Government relief would be guided by the following principles:

- Broad based, sector-wide impact, equitably available to all companies that were viable under pre-pandemic conditions, but does not disadvantage companies that do not need government support.
- Address near-term, acute nature of the challenge while minimizing long-term capital market and corporate strategy distortions.

1. Provide Direct Government Incremental Credit

We recommend that government provide additional liquidity in the form of subordinate credit to industry.

- Offered at appropriate and non-punitive terms, conditions and pricing, with meaningful incentives for early repayment
- Optionally subordinate to existing senior debt, but senior to equity.
- Subject to appropriate constraints (e.g. limitations on dividends, buy backs, compensation).

Two specific examples include:

- Extension of credit lines, secured by existing government agencies such as Export Development Canada (EDC), working with existing financial institutions
- New credit structure available to all companies (including mid to large companies). These could be structured as a pre-payment for future production at an agreed upon forward price.

2. Encourage job growth and strengthen company viability by reducing environmental liabilities

- Partner with industry and the provinces to provide matching funding or cost sharing for near-term inactive liability reduction-related expenditures to reduce liability while creating needed jobs for the service sector.
- Provide additional financial support for the Orphan Well Association (OWA) should the orphan site inventory increase further

3. Consider tax pool and collateral requirement reforms to enhance industry cashflow and encourage investment

- Explore purchasing portions of existing tax pools from unprofitable producers. This would, even at discounted tax pool valuation, inject immediate liquidity to these producers while simultaneously enhancing government revenue streams in the future. Could potentially be tied to funding of inactive well asset retirement obligation spending
- Provide relief of government tax pre-payment / collateral requirements and fees to unlock frozen capital. Consider waiving regulatory fees (e.g. CER fees), relieving/ refunding revenue collateral for tax-dispute prepayment, considering alternate forms of collateral such as surety, or backstopping tolls/ pipeline collateral requirements.
- Introduce 100% immediate deductibility of capital costs and eliminate available for use rule to encourage counter cyclical investment in high upfront capital opportunities and in new technology investment.

We recommend that this work be advanced expeditiously, given the urgent and compelling need for specific government measures in support of our industry that will help achieve our shared objectives of protecting public safety, while maintaining jobs and economic prosperity.

Sincerely,

Tim McMillan
President and CEO

cc: The Honourable Seamus O’Regan, Minister of Natural Resources of Canada
The Honourable Chrystia Freeland Deputy Prime Minister of Canada
The Honourable Navdeep Bains, Minister of Innovation, Science and Industry