



A Vision for Canada's Recovery

**Canada's Natural Gas and Oil Industry:
Driving Economic Recovery and
Environmental Leadership**

September 2020

A Vision for Canada's Recovery: Economic Recovery and Environmental Leadership

Natural gas and oil are essential not only to post-pandemic recovery but also to human progress and quality of life, in Canada and around the world.

From fuels for heating, cooking, agriculture, manufacturing, construction and transportation, to making everyday items like contact lenses, running shoes, carbon fibre for lighter and more efficient vehicles and plexiglass for personal protective gear, oil and natural gas underpin virtually every aspect of Canada's economy — and Canadians' lives.



We share Canadians' desire for a sustainable energy future. Oil and natural gas producers continue to lower their carbon emissions intensity, and Canadian energy can help displace higher-emissions energy sources around the world. With strong environmental standards and a focus on continual improvement, Canadian natural gas and oil are **responsibly produced and already part of a green recovery.**

Developing and exporting Canada's oil and natural gas resources is not a matter of finding a balance — which implies trade-offs and sacrifices — but rather working collaboratively with the federal government to inform the responsible development of Canada's vast natural gas and oil resources, for the good of Canadians and the global community.

“The bottom line is, the country is not going to recover unless the oil and gas sector recovers.”

Seamus O'Regan
Federal Natural Resources Minister

A Vision for Canada's Recovery

A ROLE FOR INDUSTRY

Canada's natural gas and oil industry is positioned to play a critical role in developing solutions and delivering results. This sector is one of Canada's largest employers and economic growth generators, and can **drive a robust, sustainable economic recovery to the benefit of the entire country while continuing to drive down emissions.**

Prior to the pandemic, the global demand for natural gas and oil grew continuously for 20 years. As global economies re-open over the coming years, oil and natural gas demand is expected to rebound, and long-term demand will be sustained due to population growth and rising standards of living. Canada's economic recovery can be driven by supplying responsibly produced energy to the world. **A strong oil and natural gas sector will create good jobs and economic growth, in turn generating revenues that will help Canada address issues of national debt, unemployment and social program funding.**

A ROLE FOR GOVERNMENT

During the pandemic, provincial and federal governments have been rightly focused on public health and short-term economic survival, but a resilient, long-term recovery cannot rely solely on government spending. Canada cannot self-fund its recovery; private investment from around the world must come back to our country's industries. As all countries re-open their economies, **it is crucially important to make policy decisions that position Canada for success in a hyper-competitive international market for private investment.** Investment dollars will not only support growth in the energy industry but are also vital to developing and commercializing technologies that reduce greenhouse gas (GHG) emissions.

It is important for the natural gas and oil sector to continue working collaboratively with governments. The Canadian Association of Petroleum Producers (CAPP) recommends a path forward guided by these **key principles:**

- Create and retain good jobs in Canada
- Generate pan-Canadian benefits, especially focused on prosperity for Indigenous communities
- Advance environmental leadership at home and abroad
- Build wealth and value while shrinking Canada's debt.

“We can get Canadians back to work by leveraging exports while continuing to advance the sector's leadership in environmental performance.”

Tim McMillan
President and CEO, Canadian
Association of Petroleum Producers

“As a country, Canada is fortunate to have one of the largest and most diverse endowments of natural resources in the world, representing the backbone of the economy and high standards of living. The Government of Canada is committed to creating the right conditions to secure and advance Canada's place as a global natural resources leader, creating jobs and wealth for Canadians.”

Natural Resources Canada website

A Vision for Canada's Recovery

ALIGNING OBJECTIVES ON CLIMATE LEADERSHIP

Rebuilding Canada's oil and natural gas industry to enable jobs and prosperity is not at odds with the federal government's commitment to addressing climate change. On the contrary, a thriving industry will drive ongoing innovation to improve environmental performance, by developing and applying technology within the industry that reduces emissions. These technologies can also be utilized by other sectors and shared worldwide to drive global emissions reductions.

Although Canada's total contribution to global emissions is less than two per cent, its contribution to tackling emissions reduction can be much more significant. According to a study Global Advantage Consulting Group Inc. conducted for the Clean Resource Innovation Network, the oil and natural gas sector is by far Canada's largest spender on clean technology, accounting for 75 per cent of the \$1.4 billion spent annually by all sectors.

This dedication to clean technology is having an impact: Canada's oil sands producers have made exceptional progress in reducing GHG emissions intensity, with even more new technology awaiting deployment. Further, Canada's offshore oil production is among the least carbon-intensive in the world, with 30 per cent lower emissions per barrel than the global average. And Canada's responsibly produced liquefied natural gas (LNG) could be shipped to Asia-Pacific markets to displace higher-emitting fuel sources such as coal.

Advanced environmental solutions developed for energy production, which address everything from emissions to water use to digital data management, can be exported globally and used in other industrial markets that have similar requirements.

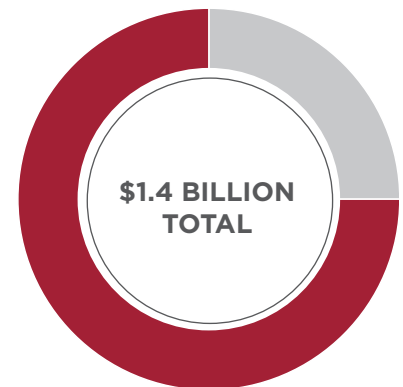
As the source of **less than half of one per cent of global GHG emissions**, Canada's oil and natural gas industry is supportive of climate change action — but a global perspective is needed to effectively address this global issue.

A narrow focus on reducing emissions only in Canada will not support Canada's opportunity to influence global emissions reduction. Exporting Canadian energy, expertise and technology to reduce global GHG emissions is how Canada can play an outsized role in addressing climate change.



CLEANTECH SPENDING IN CANADA

- 75% Oil and Natural Gas Industry
- 25% Others



The COVID Effect

As the global COVID-19 pandemic began to unfold in Canada in early 2020, the natural gas and oil industry responded immediately to keep workers and their families safe while continuing to provide essential services and products Canadians rely upon. For instance, the industry worked with the manufacturing sector to enable domestic production of plastics used in N-95 masks and other personal protective equipment necessary to healthcare workers and emergency responders. The industry also continued to supply feedstock for transportation fuels to maintain supply chains and ensure food security across the country, and provided secure natural gas supply for heating homes and hospitals and generating electricity to support digital infrastructure that connects our country.



Civil lockdown measures to control the pandemic sharply reduced global energy demand. Canadian companies decreased production by 740,000 barrels per day (b/d) and announced \$8.7 billion of capital investment reductions representing a 32-per-cent decline compared with 2019. The impact on provincial GDP is real and severe, especially in Newfoundland and Labrador (forecasted 7.7 per cent decline in 2020) and in Alberta (forecasted 8.4 per cent decline in 2020), primarily driven by a contraction of the energy sector and associated revenues.

Prior to the pandemic economic crisis, Canada's natural gas and oil industry was already challenged by lack of market access, declining capital investment and low production growth. The additional impact of the pandemic has resulted in even further declines and production cuts, estimated to cost the Canadian economy \$15.2 billion annually in export revenue – a severe economic impact that could continue until 2030.

Source: CAPP, IHS Markit 2020

Canadians have much to be proud of for handling the pandemic, yet difficult challenges lie ahead. **Unemployment is high, businesses across the country have been decimated, prospects for good jobs are diminishing while personal and collective debt is rising.** This circumstance presents a critical risk to Canada's economy, social institutions and quality of life.

“In addition to contributing to Canada's economic recovery, a strong oil and natural gas sector can help advance the federal government's objectives related to both Indigenous reconciliation and climate change.”

Tim McMillan
President and CEO, Canadian
Association of Petroleum Producers



Canada's Role in a World of Growing Energy Demand

As the world's population increases and a middle class continues to emerge in developing economies, worldwide demand for energy is expected to continue growing. While the need for affordable, reliable energy that helps elevate people from poverty has never been greater, the focus on a sustainable planet is also crucial. With responsibly produced oil and natural gas, Canada can help address both these global imperatives.

Worldwide energy demand is expected to rebound in the post-pandemic period, though various agencies' projections of the time frame for demand recovery are continuously being revised. Recovering demand in India, China and elsewhere presents an opportunity for Canada to supply four to six million barrels per day (b/d) into the global market. According to the International Energy Agency (IEA):

- Global energy demand fell to 81.4 million b/d in the second quarter of 2020 compared with the same period in 2019, a decrease of 18.2 million b/d. This decrease was largely driven by decreased demand for aviation fuel as a result of pandemic lockdowns.
- World oil demand is projected to be 96.9 million b/d in the fourth quarter of 2020, down 4.6 million b/d from the same period in 2019 but a strong recovery from 81.4 million b/d earlier in 2020.
- China's oil demand is recovering strongly, up 750,000 b/d in June 2020 over the same period in 2019.
- Although India has witnessed a slip in oil demand in 2020 due to the pandemic, with its fast-growing economy India continues to urbanize and its manufacturing sector is developing, leading to anticipated recovery of demand for oil.

Regarding natural gas, growing global demand has created a unique but time-limited opportunity for Canada to develop its domestic liquefied natural gas (LNG) industry. Canada is the world's fifth-largest producer of natural gas, with an estimated 1,225 trillion cubic feet of remaining resources (Source: NEB 2017), the majority of which lies in Alberta and B.C. At current rates of consumption, Canada has sufficient natural gas to meet the country's needs for 300 years, meaning we have ample supplies for export.

According to the International Gas Union, the pandemic lockdown will cut global natural gas and LNG demand by about four per cent in 2020, from record global demand of 482 billion cubic metres in 2019. However, demand can recover to pre-pandemic levels in the next two years as the world economy regains momentum. The IEA projects demand for natural gas will be one of largest growth areas in energy consumption to 2040.

“Demand growth will be significantly negative for the remainder of 2020, but will recover the majority of what was lost next year. Our base case assumption is that demand will recover to almost 97 million b/d in the fourth quarter of 2020. In 2021, demand remains impacted, but has recovered 70 per cent of what was lost during 2020. It will take another couple years to fully recover to normal demand levels and growth rates of those prior to the COVID-19 epidemic.”

Scotiabank
May, 2020

Canada's Role in a World of Growing Energy Demand

EXPORTS: BACKBONE OF CANADA'S ECONOMY

Oil, natural gas and related products make up the largest share of Canada's exports, accounting for about 19 per cent of total export revenue. These products are sold almost exclusively to the U.S. Having only one major customer means Canada does not obtain world market value for our exports because we compete for U.S. markets with other petroleum-producing nations – including the U.S. itself.

Exports are the backbone of Canada's economy and fundamental to post-pandemic recovery. They generate revenue and provide the ability to pay for imports of goods and services not produced in Canada. In short: **exports pay the bills.** Exporting oil and natural gas via pipelines and tankers, and from LNG facilities, means money flows back into Canada, creating jobs, government revenue and enabling industries associated with the energy sector's supply chain to grow — thereby creating even more jobs and government revenue.

If Canada stopped exporting natural gas and oil products, the country would fall into a trade deficit. This would mean a reversal of the flow of income into the country, slowing economic growth and severely hampering efforts toward a sustainable recovery.

Natural gas and oil are valuable commodities, sought after worldwide, especially in growing markets like China, India and Southeast Asia. Securing additional international customers for our natural gas and oil will enable greater revenue generation for Canada — and help address climate change on a global scale, because Canada's resources are produced using advanced technologies that reduce emissions intensity.



Natural gas and oil are Canada's biggest export commodities by value. In 2019, exports of crude oil, bitumen, natural gas and natural gas liquids generated more than \$102 billion. Adding refined petroleum products such as gasoline brings the total to more than \$112 billion, or about 19 per cent of the revenue from all of Canada's exports combined.

Statistics Canada

Recovery Principle 1: Create and Retain Good Jobs in Canada

Canadians from B.C. to Newfoundland and Labrador are involved in oil and natural gas production, directly and through a multi-billion-dollar supply chain that includes some 10,000 businesses across the country.

The oil and natural gas sector is among Canada's largest industries, generating more than \$100 billion in gross domestic product (GDP) annually and supporting half a million direct and indirect jobs across the country. On average between 2016 and 2018, Canada's upstream energy sector paid \$8 billion a year to all levels of government in taxes and royalties. In 2019, the sector contributed approximately six per cent of Canada's GDP.

Source: CAPP, Statistics Canada

The pandemic dramatically reduced energy demand and eroded oil prices, taking a severe toll on the industry. CAPP estimates more than 28,000 direct and 107,000 indirect jobs were lost in the sector in 2020. The outlook for 2021 is highly uncertain and additional jobs losses are possible if COVID-19 is not contained and energy demand does not recover. Notably, because of the industry's widespread supply chain, **job losses have impacted every region of the country.**

However, strategic investments and policy choices coinciding with the projected global rebound in energy demand could enable Canada's natural gas and oil industry to drive a strong recovery, creating opportunity and building value by employing Canadians while shrinking the country's deficit. Just one example among many: according to the Conference Board of Canada, growing the LNG industry in British Columbia could create national benefits including 96,550 new jobs, boost total wages in Canada by over \$6 billion, and increase Canada's GDP by \$11 billion every year.



Recovery Principle 2: Generate Pan-Canadian Benefits and Indigenous Prosperity

The energy sector is truly a national industry. In **Atlantic Canada**, the vital offshore industry made up one-quarter of Newfoundland and Labrador's GDP, 41 per cent of the province's exports, and has supported 600 supply and service companies over the past 25 years. In 2016-2017, nearly 1,200 companies in **Ontario** were part of the oil sands supply chain, valued at \$1.89 billion and providing jobs for about 63,000 Ontarians. Across **Western Canada**, in addition to direct and indirect employment, the industry generates spinoff benefits to local businesses such as hotels, restaurants, services and retailers.

BRITISH COLUMBIA

Construction of the LNG Canada export facility at Kitimat, B.C. and the associated Coastal GasLink pipeline are already providing supply chain opportunities across Canada. In its project filings, LNG Canada said it expects between \$10.4 and \$16.6 billion of direct capital expenditures to take place in Canada (based on four production trains in the plant), representing 46 per cent of the project's total capital cost.

ALBERTA

The Alberta Carbon Trunk Line system, Canada's largest carbon capture, utilization, and storage (CCUS) project, began operation in June 2020. This project sets a technological example for the world, by capturing carbon dioxide (CO₂) from industrial sources near Edmonton, Alberta and transporting it 240 kilometres to the southeast where it's injected into mature oil and natural gas reservoirs for enhanced oil recovery - and permanent underground storage. The \$1.2 billion project is designed to store about two million tonnes of CO₂ per year. In addition to direct employment for construction and operation, the project provides much-needed spinoff benefits to local businesses along the route, from restaurants and gas stations to hotels and retailers.

ATLANTIC CANADA

The offshore industry has the potential to continue its transformational impact on Newfoundland and Labrador (NL) that it has provided for several decades. In 2018, the Newfoundland and Labrador Offshore Industry Association (Noia) released an economic impact report highlighting the offshore industry's potential future benefits, including: more than \$100 billion in taxes and royalties to the NL government, significant increases in jobs (up to 56,000 by 2033), household income, and consumer spending. Through spinoffs, all aspects of the economy could be affected: vehicle sales doubling, restaurant spending increasing by \$93 million, and construction engineering jobs increasing by 4,000.



Recovery Principle 2: Generate Pan-Canadian Benefits and Indigenous Prosperity

INDIGENOUS ECONOMIC RECONCILIATION

The industry acknowledges the importance of Indigenous reconciliation in Canada, and believes natural resource development is linked to the broader Canadian reconciliation process. **The industry's strongest role is through 'economic reconciliation'** – identifying feasible ways to share economic opportunities arising from resource development, while continuing to improve and grow relationships based on trust and respect.



Responsible development contributes to overall reconciliation and Indigenous self-determination by supporting the growth of sustainable Indigenous communities. The industry works with Indigenous communities in a variety of ways including consultation, procurement, equity partnerships, consultation capacity funding, business and other agreements, community investment, and training, skills development and employment.

A recent report by the Conference Board of Canada for the Macdonald-Laurier Institute (MLI) offers numerous examples of Indigenous benefits associated with the energy industry. CAPP's own findings show many examples of successful engagement across the country:

- In 2017, the Fort McKay First Nation and the Mikisew Cree First Nation acquired interest worth more than \$500 million in Suncor Energy's East Tank Farm development.
- As part of an ongoing effort to support local First Nation businesses in northeastern B.C., PETRONAS signed road maintenance agreements that enable First Nation-owned companies to borrow necessary capital to buy equipment, creating year-round work and employment.
- The Trans Mountain Pipeline Expansion project has engaged close to 150 Indigenous communities and groups, and signed agreements with 59 Indigenous groups in B.C. and Alberta, representing more than \$500 million in benefits and opportunities for Indigenous communities.

In 2015-2016, the oil and natural gas industry spent more than \$3.3 billion on procurement from Indigenous-owned businesses. The energy sector is one of the largest employers of Indigenous peoples in Canada.

Recovery Principle 2: Generate Pan-Canadian Benefits and Indigenous Prosperity

- In 2017, Suncor Energy purchased a 41 per cent equity interest in PetroNor, a petroleum products distributor in the James Bay and Abitibi-Témiscamingue regions of Quebec. PetroNor, owned and operated by the James Bay Cree, services commercial, industrial, aviation, mining and residential clients. PetroNor's technical expertise and logistics capabilities help the company support the unique and specialized needs of northern customers and communities.
- Building on successful safety culture seminars involving offshore operators and all 13 Nova Scotia Mi'kmaq communities in 2018, similar sessions in St. John's, NL were held in 2020 to discuss community safety issues and strategies to address them, develop awareness about industry safety, and set groundwork for offshore supply chain opportunities.

Even before the pandemic's impacts, ongoing regulatory, legal and economic challenges that have impacted the industry have also impacted Indigenous communities. Indigenous revenues from natural resources on-reserve lands in Canada were more than \$250 million in 2011 but have fallen to about \$50 million in 2019 (Conference Board of Canada / MLI). Indigenous communities, many engaged directly in the industry have seen revenues drop precipitously in 2020 due to the pandemic and the resulting economic crisis.

Shared economic opportunities are only part of industry's engagement — both industry and Indigenous peoples place high value on environmental stewardship, including the role traditional Indigenous knowledge can play to inform environmental management.

“Engagement in resource development projects is the best way by which to raise our own revenues, enhance our self-determination, and provide employment and business opportunities for our members, as we begin to secure financial sovereignty.”

Chief Roy Fox
Kainai Blood First Nation and Chair,
Indian Resource Council

Recovery Principle 3: Advance Environmental Leadership

A strong recovery plan and competitive government policy measures are essential to ensuring Canadian industries can attract investment, growing Canada's economy and getting Canadians back to work. These objectives can be achieved while also leveraging the energy sector's leadership in emissions reduction, water protection, and land and species management research and practices — objectives that are **aligned with the federal government's objectives, particularly around addressing climate change.**

As a part of the highly integrated international energy system, Canada's oil and natural gas industry is well positioned to provide expertise in both science and technology to reduce emissions at home and around the world.

Canada can take a leading role in reducing overall global emissions, enabling this country to maximize our unique expertise, innovation and technology to contribute to global emissions reduction.

Canada's environmental, social and governance (ESG) standards are among the highest in the world. For instance, a 2018 report by BMO Capital Markets ranked major oil producing countries on ESG by combining the Yale Environmental Index, the Social Progress Imperative and Worldbank Worldwide Governance Indicators. Canada ranked near the top and was first among the world's top 10 oil-exporting nations.

The energy industry continues to invest in technologies and processes that drive down GHG emissions. For example, since 2009 the oil sands industry has reduced per-barrel GHG emissions intensity by 21 per cent, with a further 23 per-cent reduction expected by 2030. We are committed to collaborating with government and other stakeholders to accelerate the adoption and deployment of technology to continue reducing emissions.





ENVIRONMENT

2018 Yale Environmental Protection Index (EPI)

Rankings of the world's top 10 exporting nations.



Canada's upstream natural gas and oil industry spends about \$3.7 billion annually on environmental protection, about 44 per cent of all Canadian industries combined.

Source: CAPP, Statistics Canada, 2016

Recovery Principle 3: Advance Environmental Leadership

COLLABORATING TO REDUCE EMISSIONS

The oil and natural gas industry has made exceptional strides in reducing emissions and that commitment continues — for example, many CAPP members, including major oil sands and offshore producers, have ambitious emission reduction targets that will be a key part of Canada's commitment to addressing climate change.

The industry's work emphasizes collaboration, within the industry and with governments, communities, First Nations and stakeholders. The industry's advanced expertise and technological innovation are keys to our solutions-focused approach to emissions reduction. We believe delivering reliable, affordable, responsibly produced energy addresses important social issues and creates prosperity, without compromising environmental performance improvements. **A stable and globally competitive business environment enhances investment, creates jobs, promotes innovation and ultimately enables our ability to reduce emissions.**



Carbon Leakage

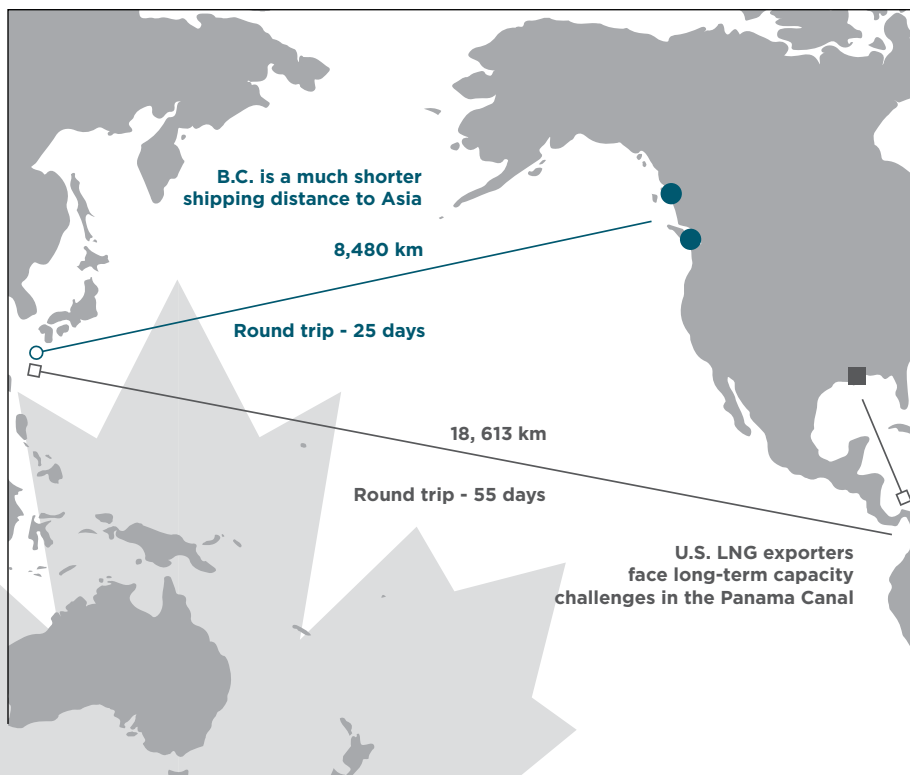
Carbon leakage is an unintended consequence of uncompetitive government policies that diminish domestic economic activity but do not diminish global emissions. Carbon leakage occurs when investment – and therefore oil and natural gas production – shifts from places with high regulatory standards and related costs (e.g., Canada) to places with lower or no standards and associated costs. This means no reduction of overall global emissions, because international demand that could be met with responsibly produced Canadian energy will be filled by other global sources that are likely to be produced with less environmental regulation and potentially higher emissions. Carbon leakage also contributes to a loss of Canadian jobs and government revenues, and a loss of funding and expertise necessary to develop new and groundbreaking emissions-reduction technologies.

Recovery Principle 3: Advance Environmental Leadership

LIQUEFIED NATURAL GAS AND GLOBAL EMISSIONS REDUCTION

Canada's wealth of natural gas resources offers an opportunity to build a national LNG industry that will be both a global climate change solution and will benefit Canadians across the country. Even with an expanded LNG industry, Canada can continue to meet domestic demand requirements while developing new export market opportunities. **Canada can provide energy to the world while driving major reductions in global GHG emissions.**

In 2020, the *Journal of Cleaner Production* published results of a study by three research groups from Canada and the U.S. that performed independent lifecycle analysis of planned LNG supply from Canada to China. They found using Canadian LNG can achieve a reduction of 34 to 62 per cent in GHG emissions per kilowatt hour of power generated by natural gas (LNG) compared to coal. This study shows that even if a Canadian LNG industry causes increased domestic GHG emissions, that increase would be more than offset by a **significant decrease in global GHG emissions when natural gas is used to displace coal.**



Why Canada's LNG is better

Canada's natural gas and LNG are among the least carbon-intensive in the world. Canada also has expertise, technology and exceptional standards for responsible resource production. Canada's standards governing exploration, production, transport and use of hydrocarbon resources are rigorous and Canada's industry also has other advantages that make our natural gas and LNG desirable on the world market:

- The availability of a large, high-quality resource can enable Canada to be a reliable, competitive supplier to global markets.
- Standards that regulate flaring and venting are among the most stringent in the world.
- LNG facilities on Canada's west coast are closer to Asia than any other North American LNG source. Shorter marine transport distances result in lower cost and emissions.
- LNG facilities in cooler climates are more efficient and consume less power. Canada has cooler average temperatures than most other LNG-producing regions such as Qatar, Australia and the U.S.

Recovery Principle 3: Advance Environmental Leadership

PARIS AGREEMENT ARTICLE 6

Article 6 of the Paris Agreement would enable companies and countries to trade or share carbon offset credits – called Internationally Transferable Mitigation Outcomes (ITMOs). The goal is to spur international investment and co-operation on GHG reduction initiatives.

Recognizing ITMOs would be beneficial for Canada in two ways: these offsets would help Canada achieve its commitments under the Paris Agreement in addition to domestic measures now underway; and enable Canada to grow its natural gas and LNG industries to meet global market demand, helping to reduce global emissions while creating economic growth and jobs across the country.



CANADA'S CLEANTECH LEADERSHIP

Companies in Canada's cleantech and energy sectors are working together to continue transforming the energy industry with advanced technologies from energy efficiency, digitization, novel resource recovery to transport and value-added solutions across the entire value chain.

The natural gas and oil industry is developing a myriad of technological solutions to advance environmental performance. Carbon capture and storage, injected hydrocarbon ("solvent") extraction, partial upgrading and using municipal wastewater for hydraulic fracturing are only a few examples of **a vast array of innovations across the industry.**

Companies, organizations and researchers are collaborating to decarbonize the production of oil and natural gas in Canada. But developing complex technologies is time-consuming and costly. **Capital investment is the key to advancing development and deployment of new technologies.**

"Meeting the world's growing needs for energy and for a transition to a low-carbon economy requires unprecedented innovation. Canada is an energy powerhouse, also a cleantech leader. No country is better positioned to be leading the transition to the clean resources nexus. This is where we are going and it's incumbent upon Canadians to help the world make that transition."

Jean-Philippe Linteau
Director, Cleantech Sector, Trade
Commissioner Service, Global Affairs
Canada, 2019

Recovery Principle 4: Build Wealth While Shrinking Canada's Debt

With efficient, supportive policies and regulations in place, oil and natural gas projects could be shovel-ready and shovel-worthy. These projects can put Canadians back to work immediately with a multi-billion-dollar national supply chain, offer economic opportunities for Indigenous communities, and generate desperately needed revenues for governments in the form of taxes and royalties. These objectives can be achieved while leveraging the sector's leadership in emissions reduction, water protection, and land and species management.

In an economic snapshot released in July 2020, the federal government estimates a budget deficit for 2020 of \$343 billion. For comparison, total government revenues in 2018-19 were \$332.2 billion.

While Canada's natural gas and oil industry can't be the only solution to debt reduction, it must be part of a sustainable economic recovery. Shovel-ready initiatives like the multiple West Coast LNG projects awaiting final investment decision, as well as offshore projects in Atlantic Canada, could put thousands of Canadians back to work right away while generating royalties, income and business tax revenues for decades to come.

The industry brings in more private investment capital than any other in Canada: about \$40 billion in 2018, and has a multi-billion dollar supply chain including strong connections with industries in Ontario and Quebec. Natural gas and oil investments have a significant multiplier effect creating economic growth in all regions and across multiple sectors.

Industry and federal government modelling conducted by the Joint Working Group in 2018 found that the right policy environment would result in annual incremental impact through 2030 of **\$20 billion per year in investment, 120,000 additional permanent jobs, \$45 billion increase in GDP, and \$7.5 billion per year increase in government revenues.**

Source: CAPP



INCREASED INVESTMENT:

**+\$20 billion
a year**



NEW EMPLOYMENT:

**+120,000
permanent jobs**



INCREASED GDP:

+\$45 billion



**INCREASED
GOVERNMENT REVENUES:**

**+\$7.5 billion
a year**



CAPP Recommendations for Rebuilding a Resilient Energy Industry

As global markets recover, private investment will flow to regions offering the most competitive terms, including reduced taxes, royalties and incentives that provide the best return on investment. Canada will be competing with every jurisdiction in the world for investment dollars, and with Canada's debt to GDP ratio expected to increase to 49 per cent in 2020-21, attracting private capital to revenue generating projects will be critical to growing the economy and getting Canadians back to work.



Prior to the pandemic and the oil price crash earlier in 2020, Canada's energy sector had been experiencing reduced investor confidence while investment in other jurisdictions was increasing. This trend reflects an overall challenge in Canada's investment environment. Economic recovery presents an opportunity for Canada to change this picture. To address competitiveness issues, it is imperative for Canada to set policies to support recovery in the industry — and thereby recovery across the national economy.

Canada is not currently positioned to be successful in ultra-competitive capital investment arena as other countries already have or are making decisions to advance their competitive advantage. For example, Norway is granting additional tax reforms for the oil and natural gas industry to address current market challenges, including **100-per-cent immediate deductibility** for capital investment for projects approved in 2020-2021. As a result of these actions, several offshore projects in Norway are proceeding, whereas offshore projects in Atlantic Canada have been deferred. In addition, the U.S. government has been systematically creating incentives for energy development for several years that have enabled the United States to become the world's largest oil producer and is on track to be the largest global exporter of LNG.

CAPP Recommendations for Rebuilding a Resilient Energy Industry

FOUNDATIONS FOR RECOVERY: SHORT-TERM ACTIONS

The energy sector is a willing partner to collaborate with the federal government to achieve emissions reductions domestically and to advance Canada's opportunity to influence global emissions reduction. Working together, industry and government can develop and implement an integrated recovery strategy that considers goals around economic growth, job creation, Canada's climate targets, clean technology export ambitions and economic reconciliation with Indigenous communities. Achieving these goals will be based on a strong, thriving natural gas and oil industry that can attract investment, continue to deploy innovative technologies that reduce GHG emissions, and help create an overall uplift to the national economy, driving a sustained and resilient recovery.

Therefore, **CAPP proposes three broad recommendations to the federal government:**

- The **accelerated depreciation of capital** is the most efficient fiscal lever available to government. Providing these tax measures would allow fair and equitable treatment to the natural gas and oil sector, similar to other sectors such as manufacturing. **Specifically:**
 - Introduce 100-per-cent immediate deductibility for oil and natural gas capital investments, including clean technology and emission-reducing investments *or* at a minimum, the removal of the 'Available for Use' rule.
 - Reinstate the Atlantic Investment Tax Credit (AITC) at 15 per cent in short term, moving to 10 per cent in the long term.
- As currently proposed, the **Clean Fuel Standard (CFS)** will affect every part of Canada's economy from households to businesses of every size, which in turn will curtail economic recovery. The industry proposes to work with the federal government to make CFS effective in achieving federal emissions reduction goals. **Specifically:**
 - Make design modifications to the CFS liquid fuel stream to include protection for emissions-intensive, trade-exposed industries.
 - Exclude gaseous and solid fuels from the CFS carbon intensity reduction obligation, but enable credit generation from these streams within the liquid fuel stream.



CAPP Recommendations for Rebuilding a Resilient Energy Industry

- Make a visible commitment to work with industry to **provide clarity and certainty to global capital investors** by promoting Canada's leadership in environment, social and governance (ESG) performance. In addition, market access is crucial for Canada to move natural gas and oil from our producing regions to emerging global markets such as China, India and Southeast Asia. **Specifically:**
 - Work with industry to implement appropriate recommendations of the Federal Expert Panel on Sustainable Finance and advance an ESG strategy promoting Canada as an oil and natural gas supplier of choice among global markets.
 - Continue the federal government's visible support for the Trans Mountain Expansion Project and the Keystone XL pipeline project.
 - Make cross-border pipeline completion and protection a top priority in U.S. / Canada relations to ensure ongoing Canadian access to vital U.S. markets.

MEDIUM AND LONG-TERM ACTIONS

Over a longer time frame, additional government support for the industry could include the following initiatives.

A national ESG strategy

Canada's energy industry is a world leader in environment, social and governance (ESG) practice, which has a potentially transformative impact on competitiveness as investors increasingly seek corporate progress in the ESG space as a basis for investment decisions.

According to the Federal Expert Panel on Sustainable Finance, "Canada's oil and gas companies are competing against major sovereign producers that face little pressure for transparency or risk of divestment. Divestment from these public companies essentially transfers market share from the minority producers most obliged to act responsibly and transparently, to monopoly producers without similar obligations." The Panel recommended that the federal government "Support Canada's oil and natural gas industry in building a low emissions, globally competitive future," in which "The federal government has an active role to play in promoting Canada as a supplier of choice among global markets."



CAPP Recommendations for Rebuilding a Resilient Energy Industry

CAPP recommends the federal government work with industry, including through a multi-departmental recovery-focused, *Create the Path* table, to identify measures that support recovery and build global investor certainty for Canada as a jurisdiction for long-term investment. This work should include articulation of investment goals and a fiscal strategy to achieve them, and implementation of appropriate Panel recommendations to advance an ESG strategy promoting Canada as a supplier of choice among global markets.

Additional fiscal tools and considerations

Access to liquidity is a key priority for the oil and natural gas industry. By April 2020, the industry experienced an erosion of approximately \$137 billion in market capitalization value since 2019 — a record dollar amount wiped out in a short time period. The sector’s liquidity needs could be as high as \$27 - \$30 billion in 2020. Initiatives announced by the federal government in April 2020 have not been effective. **CAPP recommends:**

- Work with industry to revise the design of the Business Credit Availability Program and Large Employer Emergency Financing Facility program to be more accessible to upstream oil and natural gas companies.
- Consider tax pool reforms to enhance industry cash flow and encourage investment. Purchasing portions of existing tax pools from unprofitable producers would inject immediate liquidity while simultaneously enhancing future government revenue streams.
- Work with industry to reform the large corporation tax rules to unlock frozen liquidity and reduce administrative burden.

Exploration levels in Atlantic Canada are low compared to competing jurisdictions. **CAPP recommends** exploration incentives to remove barriers for companies to invest in exploration activities and compete for international capital.

Taxable income for oil and natural gas producers operating in Canada is computed in accordance with the common principles of business and accounting practice. **Benchmark tax measures pertaining to the industry are not subsidies**, but ensure neutrality of the tax system between sectors by removing the tax bias against them. In June 2020, Minister Catherine McKenna stated the government has “eliminated oil subsidies in the federal tax system,” however the industry continues to fight the misconception that subsidies exist. **CAPP recommends:**

- As part of Canada’s G-20 Peer Review process on fossil fuel subsidies, the government affirms that federal tax measures specific to oil and natural gas production are part of the benchmark tax system and not subsidies pursuant to Canada’s G-20 commitments.



CAPP Recommendations for Rebuilding a Resilient Energy Industry

CERTAINTY FOR CLEANTECH INVESTMENT

A number of technologies hold significant promise to reduce costs and the industry's GHG footprint, and to **position Canadian oil and natural gas as the cleanest in North America**. Current market conditions make it very difficult for companies to commercialize new technologies, which has led to deferring or discontinuing technology commercialization, resulting in the loss of economic and environmental benefits. **CAPP recommends:**

- The federal government explore options with industry to design fiscal tools that will both enhance project economics and simultaneously incent investment in GHG-reducing technologies.

Economic Recovery, Global Environmental Leadership

The upstream oil and natural gas sector helped drive the Canadian economy through past recoveries, notably after the 2008 worldwide economic downturn, and the industry is poised to do that again. Canada has the resources and expertise to enable a long-term recovery that is sustainable and resilient.

Our industry has the nationwide reach to stimulate broad, large-scale economic recovery and to sustain Canada's financial future. Canadians can continue to count on the oil and natural gas sector and our highly skilled workforce. We are ready to work with provincial and federal governments to get Canadians back to work, drive innovation, advance Indigenous prosperity and support Canada's recovery. At the same time, **we are equally focused on building a lower-carbon future** for Canadians and the world.

Canada's natural gas and oil industry wants to meet the world's increasing need for reliable, affordable and ever-cleaner energy, advancing global standards of living today and tomorrow while playing a critical role in tackling the global climate challenge. With strong environmental standards and a focus on continual improvement, Canadian natural gas and oil are sustainably produced and **already part of a green recovery**.



REFERENCES

BMO Capital Markets, *The 400 Billion Barrel Opportunity for Friendly Oil and Canada's Evolving Role*, March 2020.

Canadian Association of Petroleum Producers, *Competitive Climate Policy: Supporting Investment and Innovation*, 2018.

Canadian Association of Petroleum Producers, *Toward a Shared Future: Indigenous Peoples and Canada's Oil and Natural Gas Industry*, 2018.

Canadian Society for Unconventional Resources and JWN Energy, *LNG: Canada's Green LNG Advantage*; Canada and the Natural Gas Economy Special Report 2, November 2019.

Canadian Society for Unconventional Resources and JWN Energy, *LNG: Building Trust: Canadian LNG Developers & First Nations*; Canada and the Natural Gas Economy Special Report 3, February 2020.

Canadian Society for Unconventional Resources and JWN Energy, *LNG: Canada's Supply Chain Opportunities*; Canada and the Natural Gas Economy Special Report 4, April 2020.

Coates, Ken S., Conference Board of Canada for the Macdonald-Laurier Institute, *How far We've Come: Indigenous Engagement with the Canadian Energy Economy*, August 2020.

Daily Oil Bulletin, KPMG, CanOils, *The Great Disruption: COVID-19 pandemic marks an inflection point for already struggling oil and gas industry*; July 2020.

Delphi Global, *LNG Facility GHG Intensity Research Report*, December 2018.

IHS Markit, "The GHG intensity of Canadian oil sands production: A new analysis," July 2020.

International Gas Union, "Global Gas Industry is Set to Resume Growth Post-Pandemic, Adopt Low-Carbon Technologies for Long-term Growth," August 2020.

Joint working Group Industry Submission. 2018. https://www.capp.ca/wp-content/uploads/2020/02/Proposed_Actions_to_Address_the_Competitiveness_of_Canada_s_Upstream_Oil_and_Natural_Gas_Sector_JWG_Report_357104.pdf

Nie, Y. et al, "Greenhouse-gas emissions of Canadian liquefied natural gas for use in China: Comparison and synthesis of three independent life cycle assessments," in *Journal of Cleaner Production* 258, 2020.

"Norway Eager To Boost Domestic Offshore Oil Investment," OilPrice.com, July 15, 2020, <https://oilprice.com/Energy/Crude-Oil/Norway-Eager-To-Boost-Domestic-Offshore-Oil-Investment.html>

PetroLMI, "Employment and Labour Force Data Dashboard," July 2020.

PetroLMI, *Sectors at Risk: The Impact of COVID-19 on the Canadian Oil and Gas Sector*, August 2020.

Government of Canada, *Annual Financial Report of the Government of Canada Fiscal Year 2018-2019*, 2019.

The Canadian Association of Petroleum Producers 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 industry. Together CAPP's members and associate members are an important part of a national industry with production revenues of about \$109 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.



CANADA'S OIL & NATURAL GAS PRODUCERS

CAPP.CA

2020 - 0029