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Chair

Mr. Dave Van Kesteren

Subcommittee on Canadian Industrial Sectors of the Standing Committee on Industry, Science and Technology

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● (0905)

[*English*]

The Chair (Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC)): Welcome to meeting number 9 of our Standing Committee on Industry, Science and Technology. This is a subcommittee studying the crisis of certain industrial sectors in Canada, such as aerospace, energy, forestry, high technology, and manufacturing. Today we are pleased to have the energy sector.

Normally, we begin our sessions with opening remarks. We generally give you about 10 minutes, but if you need to take a little longer...we've been getting more and more generous as this thing has progressed. I think it has worked out fairly well.

We have presentations from the Canadian Association of Oilwell Drilling Contractors and from the Small Explorers and Producers Association of Canada; however, they are only in English. So I need unanimous consent if we are to distribute this.

Monsieur Bouchard, would you agree to that? If not, we just have to listen. A translation will be done, but not today.

[*Translation*]

Mr. Robert Bouchard (Chicoutimi—Le Fjord, BQ): Yes.

[*English*]

The Chair: Thank you. This is testimony to the great collective spirit we've had in this committee.

Mr. Marc Garneau (Westmount—Ville-Marie, Lib.): I'll also allow it to take place.

Mr. Mike Lake (Edmonton—Mill Woods—Beaumont, CPC): I think I'm okay.

The Chair: Then we will begin.

Again, if it gets a little bit long, I'll just ask you to cut it short. However, as I said, you can finish your thoughts.

I think we will begin with Mr. Herring.

Mr. Don Herring (President, Canadian Association of Oilwell Drilling Contractors): Thank you very much.

Good morning, ladies and gentlemen. Thank you, Mr. Chairman, for the opportunity to come here today and present some views on behalf of the drilling and service rig industry. We're part of Canada's oil and gas upstream industry. There are the producers and then the service companies. We're part of a large collective that makes up the service industry.

The CAODC was formed in 1949, 60 years ago. We represent drilling and service rig contractors. In the slide material you can see pictures of some of the equipment. Our membership is comprised of 42 drilling contractors, 71 service rig contractors, and 150 associate members—banks and oil companies, and companies interested in our business. We have 890 drilling rigs in Canada's fleet. We also have about 1,150 service rigs. That represents 100% of all the drilling rigs in the country and about 98% of the service rigs.

In terms of employment, for every rig that's running, we have 25 jobs that are directly associated with our business—the drilling crew and the service rig crew. That number runs up to 135 if we include the rest of the service industry. We get that number because ours is a primary work site, but on that work site come a number of other individuals working for different companies in different phases of the industry. They come onto the location at various times during the operation. That number of 135 was put together by the Canadian Energy Research Institute.

I put a little piece in there about what we describe as the rig technician program. I did that, hopefully, for the committee's interest. The reason for that is Canada is the only country in the world—where oil and gas operations are undertaken—that has an established rig technician trade program in place. This was put together in 2004 in Alberta. It's actually a mandatory program in Alberta. It was rolled out to a number of other provinces and territories. It's a red seal program now. It has a curriculum that is agreed upon, and we actually try to drive that curriculum to ensure that everyone has the same training and is consistent across the country. Today we have 34 journeymen in place and another 3,000 technicians who are registered and working their way through the program.

In terms of where the drilling and service rig industries, or the service industry generally, fit in oil and gas, in the upstream industry, essentially our success, our economic health, is a function of the health of the investor, or what we describe as the operator. That's the oil and gas company. The upstream industries' economic health depends on three or four variables. Commodity prices, obviously, are very important. We measure our costs in Canadian dollars, but the resource production or potentials are actually measured in U.S. dollars.

Secondly, in terms of royalty rates or the fiscal regime, the royalty rates are set by each provincial jurisdiction, and depending upon how fair they are, the investor chooses to come and invest in the jurisdiction or not. Tax rates are set by the provinces as well as the federal government, and to the extent that the tax rates are viewed as reasonable and a return is left for the investor, then he's willing to take that chance.

In the cost of doing business, Canada is a fairly expensive place. A lot of the costs in the more remote areas are going to be higher than they are in some of the established areas.

In terms of regulatory burden, Canada has a fairly significant regulatory burden. I'm going to describe a couple of examples of that. Without upstream investment by the operator, the need for drilling stops, and with that the economic viability of our sector, of course, stops.

I put a little note at the bottom just to try to give you a sense of the size of the industry and what we, in turn, invest. We have invested about $4.7 billion building new rigs in the last ten years or so. That equipment is manufactured only in Canada. We don't import the stuff. We build it in Edmonton, Calgary, and a lot of it is built in Nisku and in Red Deer. That number I read to you doesn't include the capital maintenance for the same equipment, which is about $2 billion.

● (0910)

In terms of how we operate, I put in an activity slide for the last four years. What it indicates is that this is a seasonal industry in Canada. We work in the winter. It is the most significant time period for drilling activity. We slow down significantly in the spring. We call that breakup. And the reason we do that is we have no access to remote areas using the current infrastructure, meaning the roads. So if road bans come on, we can't move. We start working again in the summer—it's a function, quite frankly, of the amount of rain—and start wrapping our way up into the next winter drilling season, which essentially starts about mid-November. The ERCB in Alberta declares when winter starts.

The next slide shows a little bit about well completions and average rig counts. It's a 10-year or 12-year slide. The first column shows what's taking place in terms of average rig counts. You can see them back in 1996 at 316, rising in 2008 to 351. The second column talks about the fleet. The third is a very important one in our world, and that's utilization, because that shows, in terms of what we've offered to the market, what gets used, and of course then whether we profit or not. The numbers in red indicate years when economic activity was what we would describe as “sub-economic”; you can't make any money. If you're operating at less than 50%, then there is no contribution to the bottom line. Continue to do that for very long and you don't have a business.

In terms of well completions, that just gives a little bit of an order of magnitude as to what the industry is up to. In 1996 we drilled about 13,000 wells; 2005 and 2006 were great years, about 22,000; and now we're dropping off again. There was some confusion in the data; it'll show up in the operator data as well. The number we arrived at is 16,000, rather than 20,000; that's why it's starred. The data source is a bit of an issue, so to be consistent, what it really tells you is that in the last three years things are dropping off.

The next page shows what winter activity has been like for the last four or five years. Importantly, what it's trying to say is that in 2005 and 2006, when commodity prices were good, we operated at very high levels of activity. When commodity prices started to fall in reaction to some of the physical issues, some of the royalty taxation issues, particularly in Alberta, activity dropped off. If you look at 2009, you can see it significantly below where we have been in the previous four years.

The next slide is a forecast for 2009, and if you think back to where we were a couple of years ago, 2005-06, when we had 22,000 wells, we're suggesting we've got about half that in 2009, about 11,000 wells. We're going to run the equipment about 30% on average. It's clearly sub-economic. Again, you can compare that with some of the numbers along the bottom.

The assumptions include $50 oil. That's probably not too bad. For gas, our forecast is clearly not that realistic: $7. Gas is trading under $4 right now, and we suspect, quite frankly, that, if anything, this forecast will be reduced.

I put together a slide that talks about where we interact with the Government of Canada. The Prime Minister and others have stated that Canada would like to have this country be an energy superpower. Quite frankly, as a result of federal and provincial policy decisions—on the side of the federal government we had the income trust decision and on the provincial side we have Alberta's new royalty framework—investors have lost some confidence in Canada. For example, Alberta is ranked 50th out of 81 jurisdictions that were surveyed in 2008. Governments have regulatory policies in place that result in high-cost production.

In terms of where the drilling and service rig industries interact with the Government of Canada, I've given a description on the next slide. We interact on a regular basis on a number of taxation issues.

● (0915)

Transportation is a big deal in our particular industry. It takes a lot of time, and it bedevils us in some respects. We have human resources issues and we have exploration production issues, including revisions to various regulations.

I wanted to focus on two examples: a win and a struggle.

The win is this. We represent, of course, offshore rigs as well as land rigs. Our land rigs are positioned mostly in western Canada, but we have land rigs in Ontario and Quebec and the maritime provinces. In addition to that, of course, we have offshore drilling rigs. Five years ago, in 2004, we petitioned the Minister of Finance of the day to make a change in the duty applied against non-NAFTA rigs moving onto Canada's east coast. That was put in place, and it relieved the duty that was paid by those rigs and reduced, basically, the costs of operating in a high-cost environment. We think that worked well, and together with oil companies we petitioned the government of the day to extend that moratorium. On May 1, we were advised that this ask had been granted and that the moratorium will be in place for another five years. We're very grateful for that.

I put in a slide called “The struggle”. Hours of service, in particular, is something that is code for trying to make the roads safer. We're all on the same page there. Rules were drafted for all vehicles that have wheels, but essentially they're drafted for trucks, to make sure the 18-wheelers going back and forth across the country are doing so in a safe manner. We have wheels on our service rigs, and we're caught up in all these regulations, even though 95% of the time our rigs sit off-road. When we do move them, from time to time we move them in convoy and at low speed.

This was recognized by the provinces we work in, so we have structures and memoranda of understanding with the provinces that capture how we should regulate or deal with these across a number of areas. We've gone now to Transport Canada, because effective January 1, 2007, Transport Canada passed a new regulation respecting hours of service and said, here's how we are going to govern your activities, measured in terms of the hours that your drivers work.

We're okay with all that too. The only problem we have is.... We should recognize a couple of things. One is that we run 4,000 kilometres a year on average. Big-line truckers probably do that in a couple of days. Many of our rigs never see a public highway. Many of them sit over top of producing wells or new wells for weeks at a time. They just don't see much of the road. Provincial authorities have recognized that.

So we've said to Transport Canada, we have to produce a lot of documentation on a daily basis; why don't we take that measuring stick, the daily documentation we're doing anyway, and use it to measure the hours we're on the job, or potentially the hours we're actually driving, as opposed to setting up a new system intended for truckers and running it in duplication. That's our ask.

We began that ask two years ago. It will be two years ago in two weeks, actually. Still we don't have it. We met as an industry—ourselves, along with other parts of the service industry—on March 5 with Minister Merrifield to try to move the file. Still nothing has happened. We find that a bit of a struggle and a bit of a challenge. We're disappointed and are looking for opportunities to get that settled.

Mr. Chairman, ladies and gentlemen, thank you very much for a chance to talk about Canada's drilling industry.

● (0920)

The Chair: Thank you, Mr. Herring.

Next, from the Canadian Association of Petroleum Producers, we have David Daly.

Mr. David Daly (Manager, Fiscal Policy, Canadian Association of Petroleum Producers): Good morning.

Mr. Chairman and members of this House subcommittee on Canadian industrial sectors, my name is David Daly. I'm the manager of fiscal policy for the Canadian Association of Petroleum Producers.

Thank you for inviting CAPP to appear in front of you to discuss the impact of the economic recession on our industry.

The Canadian Association of Petroleum Producers, or CAPP, represents 130 companies that explore for, develop, and produce more than 95% of Canada's natural gas and crude oil. CAPP also has 150 associate members who provide a wide range of services that support the upstream oil and gas industry. Together, these members and associate members are an important part of the multi-billion-dollar-a-year national industry that affects the livelihood of more than half a million Canadians.

We live in some of the most perilous times we've seen since the 1930s. People are out of work, factories are closing down, families are losing their homes. The global economic crisis has sunk its tentacles into this country, and every part of Canada has been affected.

We are no exception. The recession has hit the Canadian oil and gas industry where we do business. We provide the energy to fuel factories, heat homes, and let people drive their cars. The slowdown in economic activity means our customer, the world, is cutting back and using less of what we produce. When the world buys less, the price goes down. We all know how the price has dropped in the last few months, from a record high of $147 a barrel last summer to lows in the $35-a-barrel range a few weeks ago—neither of which is seen by industry as being a sustainable price valuation, by the way.

Recently oil prices have bounced off their lows and are now trading around the $50-a-barrel mark. This is still a far cry from what some new projects need to get themselves off the ground, though. Many large projects, such as oil sands construction projects, have been deferred, and these deferrals are having employment impacts across the country. Oil sands facility components are often created and assembled in Atlantic provinces or Ontario or Quebec. Project deferrals in Alberta have had a subsequent impact on the national manufacturing sector, while construction jobs that supported labour from coast to coast to coast have been discontinued.

But it's not just oil prices that are a concern. In fact, our industry produces and sells more natural gas than it does crude oil. What happens in the marketplace for natural gas has an even bigger impact on the industry overall. Gas was at more than $11 per thousand cubic feet last June; today it trades at a little more than $3. With this unprecedented drop in prices, we've gone from being a $150-billion-a-year industry back in 2008, just last year, to about an $80-billion-a-year industry today, at least in the view of one financial analyst.

The effect on industry cashflow has been immediate. A large number of projects have been stalled. The number of wells drilled this year will be half of that at the peak in 2005, and people are losing their jobs. In March, employment in Canada's natural resources industries fell for the second month in a row. The country lost 11,000 resource jobs in March. We expect unemployment rates to continue to increase, in keeping with CAPP's drilling forecast, which estimates that drilling will be reduced by 1,100 wells from last year. With approximately 120 workers employed by each drilling rig, this represents significant job losses.

Despite the easing of interest rates by central banks around the world, credit still remains tight for a lot of companies, especially the small and medium-sized producers. Combine the steep drop in cashflows with tight credit and it's easy to see why activity levels are down. Investment levels are off by one-third from last year. Now at $34 billion a year, they still make our industry the largest private sector investor in Canada, but that loss of $16 billion will be felt by suppliers and workers from coast to coast.

Make no mistake about it: Canada's oil and gas producers know a thing or two about business cycles. I can't say that we invented the term “boom or bust”, but we've certainly lived through the cycle many times. We're a commodities business; ups and downs are in the very nature of what we do. We've lived through downturns in the past, and the industry will live through this one, although many companies may struggle to survive.

In the short term, this industry will go through its contraction pains like any other industry in Canada, but once the economy starts to turn around—and it's anybody's guess when that will happen—the Canadian petroleum industry will be poised to meet growing demand once again. We're the third-largest producer of natural gas in the world and the seventh-largest producer of crude oil in the world. We have the second-largest reserves of crude oil in the world, second only to Saudi Arabia.

● (0925)

We have an impact on individual Canadians through their investments, RRSPs, and pensions, since a quarter of the value of shares traded on the Toronto Stock Exchange is from oil and gas stocks.

Governments are some of the biggest beneficiaries of the oil and gas industry. Through a combination of royalties and taxes, federal and provincial governments collected $30 billion last year from the industry.

The oil and gas industry is here for the long term. When world energy demand rebounds and continues to grow in Canada, Canadian supplies will be there to meet it. As our conventional sources of oil and gas continue to mature, new sources of unconventional supplies, such as oil sands and shell gas, will more than make up the difference. Even with the growing emphasis on alternative fuels development, oil and gas will continue to be a growing part of the world energy pie. That's the long term.

In the meantime, in order to get from here to there, we face some significant challenges today. I've already touched on some of the issues of demand destruction, commodity price declines, financial market instability, slowing investment, and decreased activity. Even with some pullback in markets for steel and labour, costs still remain high. However, our most significant challenges seem to be in competitiveness, environmental performance, and public perceptions of the industry.

One thing governments in Canada had been able to do for decades was to underpin a volatile business with a stable, business-encouraging fiscal platform. This has produced a tremendous amount of national wealth for the country as a whole, including GDP growth, trade, investment, and employment.

Governments have come to realize, especially since the early eighties, that when business succeeds, the country succeeds. When the country succeeds, the country grows and prospers.

The federal government realized long ago that in a medium-sized open economy like Canada's, encouraging investment capital to come into the economy and generate activity is a key to encouraging productivity and growth.

The federal government has done a good job of paving the way for a competitive fiscal environment by reducing business taxes and encouraging the provinces to do the same. This encourages capital investment in Canada.

Environmental performance in terms of air, water, and land issues is important, as is energy security and economic prosperity, including employment. We believe in a balanced approach that considers all of these aspects. This applies to all of our industry. However, the oil sands have been the focus of a lot of attention lately, so let me talk about them for a bit.

The oil sands are a strategic Canadian resource, one that provides strong security of supply for North America and one that will remain a major component of the future energy mix.

On environmental matters, we are listening to the concerns of government and communities, and we're taking action. As you know, Canada accounts for 2% of the global greenhouse gas emissions from energy. Of that, oil sands account for 5% of Canada's total. Producers are continuing to reduce their carbon intensity and are contributing to Alberta's Energy Environment Technology Fund, set up specifically to encourage carbon reduction through industry action and the development of new technology.

Since 1990, the greenhouse gas intensity of the oil sands has been reduced by 38%. Carbon capture and enhanced oil recovery and storage are all being looked at to help us to do more.

In comparison to other crude fuel types entering North America, oil sands have similar, if not favourable, life cycle greenhouse gas emissions compared to the oil that comes from Mexico, Venezuela, and even California. These emissions are about 15% higher than those of light crude oil from, say, Saudi Arabia.

Industry continues to reduce its use of fresh water and relies more and more on recycling the water it uses, most of which is not drinkable and heads back into its own operations. Oil sands mining operations now recycle up to 95% of water, and in situ projects are increasingly using non-potable water from deep saline aquifers in their processes. Some projects, such as Devon Energy's Jackfish project, are using 100% non-potable water.

Our land management strategy is focused on minimizing the industry's footprint and ongoing reclamation.

What's needed for continuous improvement of our environmental stewardship is the continuing and concentrated commitment to technology development. It's technological advances that will have the greatest impact on our continuing to reduce carbon emissions, lowering the amount of freshwater use, and minimizing the land use footprint of exploration development activity. This includes direct investment in and support for new technologies like carbon capture and storage.

● (0930)

At this moment, industry is at the toughest point we've seen in over a decade. Activity levels are down, investment is off, and jobs are disappearing. The impact is being felt across the country in terms of jobs, equipment, and material. But we remain optimistic. Canada has a strong resource potential and an upstream oil and gas industry that will supply Canada and North America's energy needs for a long time to come.

Tight capital markets remain a concern. To the extent the federal government can continue to encourage credit availability, this will help the industry weather the storm.

The future resource potential remains strong, and industry continues to be optimistic about achieving this potential. But one thing is very clear: technology has been, and will continue to be, the key to unlocking that future. Technology has been the cornerstone of the oil and gas industry.

Looking forward, we will continue to need government support in driving these innovations forward, to unlock abundant but difficult resources, to address the environmental challenges, and to continue to generate economic benefits, jobs, and government revenues across the country.

With that, Mr. Chairman and members of the subcommittee, thank you for your time, and I look forward to addressing your questions.

The Chair: Thank you, sir.

I have just one question. Did you say it was the federal government that collected the $30 billion, or was it all government levels?

Mr. David Daly: Between the federal and all provincial governments.

The Chair: Thank you.

Finally, from the Small Explorers and Producers Association of Canada, Mr. Gary Leach. Go ahead, sir.

Mr. Gary Leach (Executive Director, Small Explorers and Producers Association of Canada): Thank you, Mr. Chairman. I welcome the opportunity to present our perspective on the current economic situation and its impact on Canada's oil and gas sector.

SEPAC bills itself as Canada's oil and gas entrepreneurs. Our association comprises small and medium-sized independent oil and gas exploration and production companies. The membership is about 400 companies currently; 80% are oil and gas producers and about 20% are companies that supply products and services to our industry, such as Mr. Herring's members, drilling contractors, investment banks, and so on.

The typical junior oil and gas company in Canada has fewer than a dozen employees, typically focused around core personnel in the geoscience professions, engineering, and finance professionals. The focus is mostly on western Canada and it's mostly on what we call conventional oil and gas exploration and development. But the junior sector is increasingly moving into unconventional resources such as shale gas and oil sands. That's a very encouraging sign for the future, that our smaller Canadian companies are able to participate in some of these very large resource development opportunities that lie ahead of us.

About 60% of the higher-risk exploration drilling in Canada is conducted by the junior sector. In 2006, which was a high point in the last few years, the junior sector invested over $5 billion in Canada in exploring for and developing new oil and gas reserves. That figure is only about half that much in the year we're looking at going forward. What's unique about the junior sector is that they invest two to three times their own cashflow. In other words, for every dollar they get out of their operation that is investable discretionary cash, they put another two or three dollars back into the ground. They raise those dollars from the equity markets here in Canada or they borrow that money from lenders. But typically you'll see junior companies putting every dollar they make here in Canada back into the ground, developing more oil and gas reserves. That's what their investors expect them to do.

So the junior sector is a key player in our oil and gas industry here in Canada. Although we're a much smaller total of the overall production, about 25% of the dollars spent in Canada in exploration and development drilling and production activity are spent by junior companies. This year we're forecasting that about $8 billion will be spent on drilling and completion work in Canada. The junior sector would be about 25% of that $8 billion. Note that this excludes oil sands investment spending; I'm speaking here more of the traditional drilling and development work. Compare that $8 billion in the year ahead with $14 billion a year ago in 2008, $16 billion spent on drilling and completion work in 2007, and—a high-water mark in our information—about $23 billion in 2006.

We do have some challenges here in Canada for our junior sector. Canada provides among the lowest rates of return on investment in the world for oil and gas investment. I know Canadians may be surprised to hear that, but in fact Canada ranks very low. I think Mr. Herring mentioned that we are maybe 50th out of a number of countries. Typical returns in oil and gas investment in Canada may be 10%, 11%, or 12% a year, and considering the risks our industry undertakes with capital, those are not astonishingly high returns.

We do have challenges here. We have a highly regulated industry. We have some of the highest environmental standards in the world. All of this increases the cost of operating in Canada. We have some growing resistance to the scale and pace of development in many areas of Canada. We are facing as an industry, and have for several years now, an uncertain regulatory climate for CO_2 emissions. The uncertainty alone delays, deters, and discourages investment. Undoubtedly it's going to increase the costs of developing our energy supplies in what is already a very high-cost country to do so. We're also facing, as many industries are, looming workforce shortages a few years down the road.

We do have some exciting opportunities, though, in front of us. Energy demand is growing around the world, including in North America. It rises in tandem with higher GDP and higher per capita incomes.

● (0935)

I would point out, as was pointed out earlier, particularly for the junior sector, that both the junior and mid-cap companies in Canada are 70% weighted towards natural gas production. Natural gas production, in my judgment, is the cleanest source of energy this country has. There are no waste disposal issues, as you have with nuclear. There's a very light carbon emissions impact from natural gas. There's no environmental impact, as you have with hydro-electric in terms of damming free-flowing rivers and flooding otherwise productive forest and wilderness areas. Canada has tremendous natural gas reserves. We do today, and we will tomorrow with the development of tight gas resources, shale gas, and coalbed methane.

We have a very bright future ahead of us in Canada. We have an opportunity to achieve what some have called our opportunity to become an energy superpower. We have to be very careful that we don't put in place obstacles that would prevent us from becoming an even more important global player on the global energy scene. As was mentioned earlier, we're number three in the world in natural gas production. We're actually the number two country in the world for natural gas exports, second only to Russia. We have an opportunity over the next few years to move into the top four or five countries in the world in crude oil production.

These benefits are distributed coast to coast in Canada. As was mentioned earlier this morning, there are some half a million Canadians whose livelihoods are directly or indirectly impacted by the oil and gas industry, from Newfoundland to British Columbia and from the Yukon to southern Ontario. It's been well publicized in the last year that as much as 16% or 17%, nearly one-fifth, of Ontario's manufacturing production in the last few years has been destined for Alberta. That has largely been driven by demand in the development of Alberta's energy reserves. So this oil and gas industry we have is truly a national industry, and the benefits are widely distributed.

The big challenge we have in front of us as an industry is to reduce, and to continue to do so.... This industry has made some enormous strides in reducing our impact on air, water, and soil. In fact, the oil and gas industry outspends every industry, by far, in Canada, not only on environmental mitigation technology but also on energy efficiency investment. Our industry is leading the nation, I would say, in terms of those kinds of investments.

At the same time, of course, our ongoing drive is to provide Canadians, and indeed the continental market, with a secure source of domestic energy. Hopefully, down the road, we'll develop additional export opportunities that will allow our energy exports to find markets outside the country.

We have, as a sector, looked to the federal government to provide some clarity in the future on greenhouse gas-CO_2 emissions policy. That's going to be a big issue for all of us in the next year or two. We are one of the few major energy-exporting nations that is at the same time trying to be a leader in what will ultimately look like some form of cap and trade continental CO_2 emissions regime. We, as a nation, have a huge economic stake in making sure that our interests are protected.

We also look to the federal government to provide a stable, competitive fiscal regime for our energy sector, in particular for smaller companies. We have, in this country, a flow-through share regime that's critically important to our smaller independent oil and gas producers in terms of raising capital. We have recommended for the last four years that the federal government improve that flow-through share regime to allow the junior sector to more easily raise capital. Our colleagues in the junior mining sector have similar concerns. In fact, we recommended to the federal government in pre-budget consultations for the budget that was approved in January that rather than the government borrowing billions of dollars that have to be repaid, the budget stimulus should do more to mobilize private capital through tax incentives. I'm sorry to tell you that our recommendations were not accepted in the budget. But we think they would be good for Canadian taxpayers as well as for our Canadian-based oil and gas companies. I'd be pleased to elaborate on those proposals later this morning.

Those are my remarks, Mr. Chairman, and I think for all of us, we're happy to answer questions.

● (0940)

The Chair: Thank you, Mr. Leach.

We will begin our first round of questions.

We'll start with Mr. Garneau.

Mr. Marc Garneau: Thank you very much, Mr. Chair. Thank you all for your very good presentations.

I want you to know that I may have to leave partway through my questions. It's not because I'm not interested in what you're saying. I have to go to the House of Commons, so somebody else will be replacing me.

I'd like to start with Mr. Daly. I'd like you to give me an idea, if you would, of how you feel the federal government is providing assistance to you at the moment in the current depressed commodity situation. Can you highlight any particular measures that you feel are particularly helpful at this time?

Mr. David Daly: At the current time we haven't asked the federal government to provide direct assistance to the industry, and I'm not aware of specific direct assistance that the federal government is giving in terms of specific programs.

There are general measures in place that affect all businesses, such as continuing to reduce the tax level, which I think provides some fiscal relief to all businesses, including the oil and gas industry. Having businesses taxes at a more competitive level helps in terms of being able to encourage more investment activity in the country.

There are some specific things in terms of looking at carbon capture and storage technology that the federal government has said it's willing to take a look at. In terms of more general things for the oil and gas industry, there isn't anything in particular that the federal government is doing right now, or that we've asked them to do. Internally, CAPP has started to take a look at whether we want the federal government to provide some assistance, and we've started some discussions, but we haven't got to a point yet of coming up with a position or a number of options that we'd like to talk to the federal government about.

I think I mentioned in my remarks that one of the industry's major concerns right now is availability of credit and being able to access credit in order to fund either new projects or ongoing operations. It is a major concern for the industry. It still remains a concern for the industry, especially for the medium and smaller producers. It also affects the large projects that a number of companies have stated they wanted to get going, especially in the oil sands area. Continuing to encourage more easing of credit availability is something we would like the government to do.

Certainly the Bank of Canada has done as much as we hoped it would do in terms of lowering its bank rate down to 0.25%. I'm not quite sure that has always translated over well to what the chartered banks are doing in terms of credit availability; I think some of that has not led to the easing of credit that we would have liked to have seen.

● (0945)

Mr. Marc Garneau: Thank you.

You mentioned carbon capture and sequestration, which takes me to my second question for you, on R and D.

To what extent does your sector spend on R and D? I know there are federal, and I'm not quite sure whether there are provincial.... I'd be interested in knowing how important R and D is from your company's perspective, and how it is reflected in terms of how much money is spent on R and D, not only for more efficient ways of extracting the resource, but also for issues related to such things as the environment.

Mr. David Daly: Research and development is very important for our industry. Technology is extremely important for any type of development in terms of being able to access less conventional sources of supply, such as oil sands, shale gas, coalbed methane, and other types of tight gas. We're continually spending money on developing new ways of being able to access those resources at cheaper costs. We see reducing costs to develop those resources as being key to the long-term health of the industry, and that only comes through technology improvement.

The industry does spend a lot on research and development. We try to take advantage of the federal tax credit that supports scientific research and experimental development, and various provinces have their own provincial tax credits for the same type of activity.

We have run into a number of difficulties in accessing that tax credit, because the process for applying for it and for getting approval from the Canada Revenue Agency tends to be fairly cumbersome. A number of our members have had difficulties in the past. They have spent quite a long time trying to come up with the application materials that the process requires and then submitting them to CRA. In some cases they have not heard back for 18 to 24 months, and then they have had their claims rejected outright and without explanation.

To a certain extent, the numbers that might be reported in terms of the industry's use of that tax credit underrepresent the actual amount of research and development activity within the industry. The industry's technological research and development tends to be more on development lines, so sometimes it's not as clear-cut as taking a look at R and D that might happen in a university laboratory, for example.

That's what a lot of people think about when they think of research and development: academic research and development. In application processes in the field, a lot of tests and a lot of pilot projects are developed, and you don't know if they're going to make any difference in terms of your ability to extract deeper resources in a cheaper fashion or not.

● (0950)

Mr. Marc Garneau: When you mentioned tax credits, were you referring to SR and ED?

Mr. David Daly: Yes, SR and ED.

Mr. Marc Garneau: Do you know how much your 130 companies invest of their own money in the environment—using less water to minimize tailings, carbon sequestration, ways of complying with environmental regulations? I'd like to get a sense of how much comes out of their own pocket.

Mr. David Daly: I'm sorry, I don't have that figure at my fingertips, but I can certainly find out and get back to you.

Mr. Marc Garneau: I would be interested in that, yes.

Mr. Leach, you mentioned in your presentation an uncertainty in climate change regulation. Could you elaborate on that? To what extent is it having an effect on the operations and the future plans of your companies?

Mr. Gary Leach: A number of years ago, Canada signed the Kyoto Protocol. Ever since, the direction of the country in regard to climate change has been uncertain. Are we going to comply with Kyoto or not? Will something else replace Kyoto? Will we see a continental cap-and-trade regime with the arrival of the Obama administration? For a number of years now, we have not had much clarity from the federal government on exactly where we're going and what the regulations will look like.

The current federal government announced a couple of years ago their own *Turning the Corner* guidelines, which started to give us a bit of focus. But of course, with the election of the Obama administration, the direction has shifted to a continental approach. Canada is concerned to make sure we're not on the outside of what could be tariff-like restrictions on Canadian exports of energy and all sorts of energy-intensive exports to the United States.

When you don't know what the regulatory framework is going to be, long-term investments are going to be deferred. Companies have announced that, with respect to some of the long-term oil sands projects, they're not willing to proceed with multibillion-dollar, 30-to-50-year projects without a better idea of what the emissions regulatory framework is going to look like. They need to translate it into costs for their projects. The entire world is groping its way towards some kind of international consensus on this.

I would only urge that the Canadian government understand how much we all depend on the largest private sector investment industry in Canada. It is crucial to our balance of trade exports, the strength of our currency, and our prosperity. We cannot afford to diminish, inadvertently or not, the wealth-generating potential of the oil and gas sector through an attempt to comply with a regulatory framework that is not achievable in the short term. In fact, many advocates of Kyoto admitted it would have a negligible impact on climate change in this century.

If you look out to the year 2030, even at rapid—

Mr. Marc Garneau: Globally speaking.

Mr. Gary Leach: Globally speaking, if you look to 2030, even with the rapid pace of development in biofuels, solar, and wind, those three sources will contribute only 2% to global energy demand in 25 years. Fossil fuels, natural gas, crude oil, and coal will still contribute about 80%, which is about what these sources contribute today.

Canadians need to be told an uncomfortable truth—we're going to be relying on traditional sources of energy for a long time to come. All forms of energy are going to be contributing to the solution, but the oil and gas sector is going to be a major contributor to Canada's energy supply for many decades to come.

The Chair: Thank you.

Monsieur Bouchard.

[*Translation*]

Mr. Robert Bouchard: Thank you, Chair.

I would also like to thank our witnesses for appearing before us today.

I am from Quebec, and the oil industry, when it is working at full capacity—as we saw when the price of a barrel of oil went up to $145 or $150—is one that causes economic hardship for Quebec, a province that depends on its manufacturing industry.

Quebec relies very heavily on electricity. The point should be made that the oil companies enjoy tax benefits that are unique to them, such as the accelerated cost allowance and income tax reductions.

My question is to Mr. Leach.

Do you agree that the oil companies get more advantages than companies that produce electricity or other types of energy?

● (0955)

[*English*]

Mr. Gary Leach: No, I wouldn't share that view. Perhaps that's the answer you expected.

Hydroelectricity requires massive capital investments up front, and then it tends to be self-renewing. In terms of the oil and gas industry, every time you sell a barrel of oil down the pipeline, you have to replace it. It requires massive, continuing new investment in developing additional energy reserves. I think the two energy industries are quite different in their makeup.

[*Translation*]

Mr. Robert Bouchard: Do you have any comment on this, Mr. Daly?

[*English*]

Mr. David Daly: I have to disagree with your comment that the oil and gas industry has tax advantages over other industries. You specifically mentioned the accelerated capital cost allowance. That was something the oil sands industry had. It was eliminated and is being phased out as a result of Budget 2007. It was something that only the oil sands industry would have taken advantage of. And the accelerated capital cost allowance is really just a way of deferring taxes. You don't get a tax break as a result; it's a tax deferral.

Right now, the corporate income tax rate for the oil and gas industry is the same as that of all the other industries. The capital cost allowance is heading in the same direction as that of all the other industries. In fact, the manufacturing and processing industry is getting an advantage right now in terms of the special two-year accelerated capital cost allowance, because of the economic crisis. This is a stimulus for manufacturers and processors that the oil and gas industry is not privy to at this time.

[*Translation*]

Mr. Robert Bouchard: Do you agree that consumers rely too much on the oil industry? When the price of oil goes up, the impact on the economy of provinces that do not produce oil is devastating or at least significant.

What can be done to avoid price fluctuations of the type we saw in 2008? There were wild price increases. What must be done to ensure some stability in the price of oil? The oil sector has the greatest fluctuations in price. I am referring here to 2008, when there were major price fluctuations. What must be done to ensure some price stability that would benefit consumers?

The question is for any or all of our witnesses.

[*English*]

Mr. Gary Leach: Maybe I'll speak first. The oil and gas industry is not helped by rapid increases and rapid declines in the price of oil and natural gas. We also would be happier with a more stable price environment.

I can tell you that the rapid run-up in prices is typically influenced by the belief that the supply is not going to be sufficient to meet demand. One of the reasons that we saw a rapid decline in prices, particularly for crude oil, which is a globally traded commodity, was the global collapse in demand as a result of the economic slump.

The only solution to more stable prices, at least from the consumer's point of view, is adequate supply. Adequate supply depends on incentives for investment in bringing on new supply. That's certainly a point of view that I think all of us would share. If Canadians want to enjoy the benefits of the tremendous energy reserves we have in this country, a sensible policy framework from the national government would be to make sure we have an investment climate in this country that permits our oil and gas companies to develop and bring on supply at a pace that's at least equal to the demand.

We can't control global prices for crude oil, but we can certainly make sure that Canadians are adequately supplied with those kinds of energy. Natural gas prices are set in a continental North American market. We have very little influence from imports of natural gas into North America. It's a continental market and we have adequate supply. In fact, natural gas prices have dropped so low not only because of the economic slump in demand in the United States, to some extent, but also because we have discovered in the last two or three years that we have an incredible natural gas resource base.

A few years ago we didn't have the technology to capture resources such as shale gas. In the last few years, the technology has been developed to do so, and we're now realizing that North America has abundant supplies of clean-burning natural gas. By some measures, we have a century or more of supplies of natural gas. It's a benign, clean-burning fuel. That's what our industry exists to do: supply this continental market with energy supplies.

As I say, from our perspective, the best thing the national government can do is make sure that Canada is a good place to invest, to bring on these supplies when they're needed.

● (1000)

The Chair: Mr. Daly, do you have anything to add?

Mr. David Daly: I'll just add that nobody likes to see the price variations and fluctuations up and down that we've had over the last few years. In our industry, we don't like to see it either, because it affects our cashflow and it makes things uncertain in terms of being able to plan forward.

But it works both ways. We know we're in a commodity business, and we know that prices go up and prices come down. In the last year, certainly, they've come down, and that's been a help to the manufacturing processors who said it was a hindrance when they were on the way up.

Also, having the markets sending those signals tends to send signals to alternative fuel developers. It makes some of the projects for biodiesel, wind power, and other alternative fuels more economic and allows them to ramp up their plans and production to be able to contribute to the energy pie in the future. It also makes things like shale gas and LNG much more viable. Even in Quebec, for example, we've seen possible shale gas developments in the Utica basin, as well as more of a look at LNG facilities in the province.

So I think the price signals there, although they're uncomfortable, tend to signal that either alternative fuel developments can become more economic, or people, businesses and individuals, can use less energy or have more incentives to use less energy. Last year, with the high prices for refined products, we saw throughout North America and even throughout Europe that there was a drop in the use of refined products in terms of gasoline and some heating fuels. So it works. In terms of looking at policies around the environment and policies around the use of fuel, to be able to encourage people to use less by having higher prices I think is a good thing.

The Chair: Thank you, Mr. Daly.

Mr. Lake.

Mr. Mike Lake: I'll start by thanking you for making your way to Ottawa on what I understand was fairly short notice.

I am going to start, as I have with most meetings here, with just a little bit of global context, because I think it's important when we're talking about the global crisis here. There's a lot of negative economic information out there, and I want to put Canada's position in this global crisis into some context.

Several commentators from around the world have spoken about Canada's economic situation. *The Wall Street Journal*, for example, has pointed out, “Canada is connected at the hip to the world's largest market, and collateral damage coming from the housing and financial meltdown in the U.S. can't be ducked”, but it goes on to say that tax cuts in 2007 softened the blow and kept Canada out of recession.

Newsweek has said “In 2008, the World Economic Forum ranked Canada's banking system the healthiest in the world. America's ranked 40th, Britain's 44th....” That article went on to say “If President Obama is looking for smart government, there's much he, and all of us, could learn from our...neighbor to the north.”

The Economist has said, “...in a sinking world, Canada is something of a cork. Its well-regulated banks are solid.... The big worry is the fear that an American recession will drag Canada down with it.” The article in *The Economist* goes on to say, “Mr. Harper says, rightly enough, that his government has taken prudent measures to help Canada weather a storm it cannot duck.”

The New York Times says, “Why not emulate the best in the world, which happens to be right next door?”

There are more and more of these quotes. Of course, the IMF and the OECD have projected that Canada will come out of this situation sooner and stronger than virtually any other country in the world. I know we're the only country in the G-8 that has run a surplus in each of the last three years. Every other country actually ran a deficit in every one of those three years. So the Canadian situation is considerably stronger than almost any country in the world, and obviously the energy industry deals in a global marketplace. There's a significant advantage to operating in a stable environment, a relatively strong environment.

How important is Canada's relative strength and stability to not only the short-term success of members—and I guess in the short term we're talking about bridging the gap through this global crisis—but equally or more importantly to the long-term success of your members? Could each of you comment on that?

● (1005)

Mr. Gary Leach: Canada is in a very enviable position from the perspective of the oil and gas world. Being a G-7 country, we are one of probably only two or three countries in the world that can contemplate increasing their crude oil production in the next few years while almost every other country in the world that is currently a major oil and gas producer is looking at declines. We are so fortunate in this country to have the energy reserves that we have. Canada really is unique. In fact, I know a year or so ago it was well-publicized that Canada was home to about 60% of all the world's investable oil reserves, reserves that free enterprise and private capital could actually turn into useful energy for Canadians and other customers. You need to understand that about 90% of the world's oil reserves are off limits to investment because the reserves are controlled by state governments that highly restrict or block foreign investment.

So we really are a very special country from that perspective, and it's an advantage that will give Canada a considerable economic boost in the years ahead. We're currently going through a rough spot, but I think our long-term future as a major energy producer, which has been seen to provide tremendous benefits to our economy, is likely to continue, and hopefully we will emerge from this current recession in the next year or so and emerge stronger, and energy demand will respond, as it does, with increasing prosperity.

Energy efficiency is increasing as well, I might add. For the last 20 years or so, the western industrial countries, the G-7 countries, have all been able to increase their GDP with progressively less incremental demand on energy. So energy conservation is helping a lot too.

David or Don, go ahead.

Mr. Don Herring: We certainly share the view that the investor or the operator has expressed. Being the tail on the dog, we're very pleased to hear that when the recovery starts to come back, we'll get back to work.

On the immediate issues we face in terms of credit problems, we're very much affected. We're affected by commodity prices and the credit collapse. We're not able to raise capital for the drilling and service rig industry at the moment. Mr. Daly talked about the Bank of Canada setting the rate at 0.25%. But in fact when you go the market and try to extend your line of credit, the interest rate is around 12%, so it's significantly different. This is a tough economic environment.

● (1010)

Mr. Mike Lake: Mr. Daly, do you want to add anything?

Mr. David Daly: I concur. We've pretty much covered it.

Mr. Mike Lake: One of the things we announced several years ago was a real effort to get our corporate tax rate down from 22% to 15% by 2012. We've continued that, even in this budget. We have it down to 19% now. Moving it to 15% by 2012 will make it the most competitive corporate tax environment in the industrialized world. How important is that to your organizations?

Mr. David Daly: That's been very important. As an industry we're very dependent on being able to attract capital from around the world to fund our investment activities. Last year, as an industry, we spent $50 billion across the country on exploration development activities. Some of that capital came from outside Canada. So foreign capital and domestic capital need to feel they are getting good return on their investments if they're going to invest in Canada, as opposed to elsewhere in the world.

In order to attract that investment capital, the tax rate affects the return on investment, and having a lower tax rate that applies to the oil and gas industry as well as to other industries is an important feature in making those investment decisions. So getting the tax rate down to 15% and encouraging the provinces to get their tax rates down to 10%, for a combined tax rate of 25%, is a very prudent way for the federal government to go.

The Chair: Mr. Leach.

Mr. Gary Leach: I agree with that. I think the direction Canada is taking deserves to be applauded. It is important for us to be a competitive nation in terms of corporate tax rates to attract investment.

I would add that the smaller and medium-sized oil and gas companies don't pay a lot of corporate tax because they invest all their cashflow back into developing oil and gas reserves. Certainly for the largest companies that dominate our oil and gas industry—80% of Canada's oil and gas production comes from the top 20 to 25 companies—that's hugely important. It is a considerable competitive advantage for Canada to have those kinds of tax rates. For the junior sector it's less so, although important. The juniors would all like to become large companies some day.

I think it deserves our support, and it is certainly something we would like to see continue. It's important that we get down to those targeted tax rates.

Mr. Mike Lake: Thanks.

The Chair: Mr. Daly.

Mr. David Daly: It's also important to realize that even though the tax rates have been coming down, tax revenues have been going up. We've seen that in a number of other cases. Although the rates are lower than they were a few years ago, the revenue that the federal government itself is collecting from the oil and gas industry has been going up. It's now around $4.5 billion a year—I think that's what we estimated for 2008. That's higher than a few years ago, when it was around $1 billion to $1.5 billion a year, even with the higher tax rates.

The Chair: Thank you, Mr. Daly.

Mr. Thibeault.

Mr. Glenn Thibeault (Sudbury, NDP): Thank you, gentlemen, for coming.

We've had several other sectors here—the forestry sector, for example. Those conversations were a lot different, and the questions were quite different from what you've been getting today. It seems that your sector is still doing well because we need energy.

Mr. Daly, I think you talked about losses of $80 billion to $150 billion. Those are significant losses, but it seems that your sector is still doing well. Maybe you can comment on that briefly.

Mr. David Daly: I guess it's a matter of what you mean by doing well. If you have a $150-billion-a-year industry, certainly it's an industry in which you're spending a lot of money across the country in a lot of different projects. When you come down to an $80-billion-a-year industry, then you're cutting back on a significant number of projects. A year ago we thought we were going to go ahead with these things that would generate a lot of jobs, investment, and a lot of purchases of material across the country.

Things have been cut back. At $80 billion a year, we're back to being an industry about the size we were maybe six or seven years ago. A lot of that growth in the interim has been lost. We don't expect this to be long term; we expect it to be a short-term adjustment and we expect to continue to grow again, but it has affected the industry. We've seen job losses, projects put on hold, and we'll probably continue to see that for some time. When you knock $70 billion out of any industry's cashflow, you're going to have a major impact. It's down by almost half from what our cashflow was in the year previous.

● (1015)

Mr. Glenn Thibeault: You are saying that there are job losses. Are we seeing companies shutting their doors completely, or are they putting things on hold? How are things being affected?

Mr. David Daly: A number of the larger oil sands projects that were announced one or two years ago have been put on hold; they aren't going ahead this year. They are being deferred until there's a more stable pricing environment, when prices recover a bit and there is easier availability of credit to fund some of those projects. A lot of the people who were being geared up to work on those projects are not being employed; they're being let go altogether.

We are seeing actual lay-offs in the oilpatch—different companies are laying off people—and some prospects for future development are being put on hold.

Mr. Gary Leach: Canada will be the hardest hit of any significant oil and gas region in the world for declining investment. Some forecasters say that this year investment in Canada is down as much as 36%, in the United States it's down 30%, and internationally it's down about 7%. The global average is down about 17% in terms of CAPEX in the oil and gas industry around the world.

Why is Canada so hard hit, with an investment decline of around 36% by our measure? We have a greater component of smaller oil and gas producers in Canada. Equity markets here have been largely closed for a year and a half to two years for smaller oil and gas companies trying to raise capital. Bank financing is tight, and cashflow is a long way down because the commodity price is down. By international measures, Canada is probably going to be among the hardest hit places in the world, measured by declining oil and gas investment in 2009.

Mr. Glenn Thibeault: One thing we've heard about from all sectors—and it was mentioned, though I'm not sure which of you gentlemen mentioned it—is credit availability. How is that impacting the small and medium-sized enterprises that need credit? Or are they still getting enough investment to follow through? We have heard loud and clear that credit availability is difficult for all sectors.

Mr. Gary Leach: The oil and gas industry is very capital intensive. As I mentioned, once you've sold a barrel of oil down the pipeline, you have to find another one to replace it. For small and medium-sized oil and gas producers, it's been a very challenging market. Those are the first companies to feel the chill when the equity markets get nervous. For the last year it's been difficult; for the last six months it's been almost impossible for Canadian companies to raise equity financing.

Of course, with declining commodity prices, cashflows have been cut as much as 75% in the last year because of the drop in crude oil and natural gas prices. That makes it much harder for banks to provide the financing the companies need. After all, the banks provide the financing, just as with a mortgage on a house. The banks lend to oil and gas producers based on what the oil and gas reserves are worth in the ground. They're worth a lot less this year than they were a year or two ago; therefore, the available financing from banks is necessarily going to shrink.

All of that puts a lot of pressure on companies. They can only spend now what their cashflow is, because they can't go to the equity markets to raise money, which is where the small companies typically go, and the banks may be reluctant or unable to lend any more. So they have to live within their cashflow. This means that many of our smaller oil and gas companies are going to be smaller, in terms of the reserves in the ground, a year from now than they are today. They'll have to sell those reserves to bring in the cashflow, but they don't have enough cash left over to develop additional supply.

Mr. Glenn Thibeault: Do I have a little tiny bit?

The Chair: Yes.

Mr. Glenn Thibeault: This leads to a longer-term question, but I have a little tiny bit, so I'll try to get some answers to this and maybe come back to it after.

I heard you talk about innovation and technology innovation, so we talked a little bit about research and development. We all know we have to get greener. How does the gas and oil world think about getting greener? How are we going to start doing that? Is there research and technology being put into that?

Mr. David Daly: We are looking at different ways of trying to deal with any types of regulations or policy initiatives that the federal government and the provincial governments have for things specifically like greenhouse gas emissions. Carbon capture storage is a major development technology that we are spending quite a bit of time looking at. The Alberta government has a technology fund in place, where it has regulations that limit the amount of carbon emissions from larger plants. If you exceed those emissions, then you pay a certain amount per tonne that you exceed into a technology fund. We're looking at ways of being able to ensure that the moneys going into that fund are used to fund new technological development for carbon capture storage. We are spending time with the federal government and the provincial governments also on water usage issues and land usage issues. We do spend quite a bit of both time and money on environmental stewardship.

● (1020)

The Chair: Mr. Leach, do you have a question?

Mr. Gary Leach: I mentioned earlier, I think before you were in the room, that the most recent year for which statistics are published by Statistics Canada is 2006. I don't have the exact numbers in front of me, but I can tell you that the oil and gas industry led all industries in Canada by a wide margin in terms of not only capital investment on environmental protection and mitigation measures but energy efficiency improvement technology. In other words, they were using less energy to produce their output than any other industry in Canada. The oil and gas industry was number one.

We're here to talk about our industry, not about provinces, but Alberta also led all provinces, including Ontario, by a wide margin in terms of investment, largely due to the oil and gas sector's role in that, and in terms of spending, not only capital tax on new equipment but also ongoing operational expenditures on environmental protection measures, environmental mitigation measures, and energy efficiency improvement. I know the oil and gas industry is often criticized by those who don't have that kind of information. It actually, I think, was a real eye-opener. Everybody I've shown those statistics to is surprised by them. I'd be happy to supply those to this committee, although I would point out that they were publicized by Statistics Canada on its own website back in November and they are publicly available.

The Chair: Okay, thanks.

Mr. Valeriote, you're up next, sir.

Mr. Francis Valeriote (Guelph, Lib.): Thank you.

Mr. Leach, I was here when you answered Mr. Garneau's question earlier about the uncertainty in climate change. A couple of weeks ago I was able to meet with some people in the gas industry. They expressed the same concern. They expressed a concern that a price on carbon has yet to be placed and spoke rather vehemently about the need to place a price on carbon sooner rather than later.

Do you agree with that, and can you expand on your thoughts?

Mr. Gary Leach: You can't have a functioning cap-and-trade system. The whole premise of a cap-and-trade system requires somebody, usually a government, to put a price on CO_2 emissions or the equivalent of CO_2 emissions. The Europeans had a rather chaotic genesis to a cap-and-trade system in Europe. The price of CO_2 in Europe, the last time I looked, a few weeks ago, I think was $10 or $11 a tonne, well below the initial starting price. Of course, the Europeans awarded their industries that asked for special exemptions or permits...they over-awarded permits. It caused the collapse of the CO_2 market there. The expected price collapsed.

It depends on artificial pricing allocations. It depends on a market that functions efficiently. We have a nascent carbon trading platform here in Canada, in Montreal, trading of futures on CO_2 emissions when we get a national system in place here. The price there, I think, is $10 or $11 or $12, well below what people think carbon should be priced at. The whole problem with cap and trade and carbon pricing is that it's an artificial market. Nobody knows what the stuff is worth. I think that's a real serious concern, that people really have not confronted in a thoughtful way how you price something like CO_2 emissions. You cannot have a cap-and-trade system without putting a price on it, because that's the commodity that gets traded on the market. People buy those or they sell those, and you need a price.

Mr. Francis Valeriote: Thank you.

Mr. Daly, I understand from Mr. Garneau's notes that you had expressed a concern about a U.S. threat to bar the import of dirty oil. If you didn't say that, I'm wondering if you do see that as a threat. How might you balance, in your opinion, their insatiable thirst for oil and how might your industry rely upon their insatiable thirst to avoid cleaning up our environmental house? That would be as opposed to, in the absence of any existing regulations and with none on the horizon, voluntarily engaging in cleaning up at least the production of this natural resource.

● (1025)

Mr. David Daly: I think that might have been a question Mr. Garneau came up with on his own. I didn't mention anything about U.S. initiatives to try to bar Canadian oil or dirty oil. That is a concern. It may be targeted at Canadian oil sands oil or any oil from Canada. We've tried to point out to the Americans that our oil, on a full cycle of greenhouse gas emissions basis, is no dirtier than oil that comes from Venezuela or Mexico or even parts of California. As I understand it, that potential legislation is being pushed a little bit more by California than by some of the other states. I think Californians need to look at the oil they are accessing in their own backyard before blaming others for any oil they might see as being not up to the standards they would like to have.

I think it would be an unworkable regulation, since once oil leaves the ground and is put into a pipeline, it's fungible. It's mixed in with oil that comes from all sorts of sources. It would be pretty hard to segregate oil that comes from one area, such as the oil sands, from oil that comes from an area near Edmonton, for example, which is light and is a lot cleaner.

Mr. Francis Valeriote: When you say that it's no dirtier than other oil from other sources, is that taking into account the approximately five barrels of water—at least five barrels of water—rendered unusable when it is used to extract one barrel of oil, or does it just take into account greenhouse gas emissions?

Mr. David Daly: It's looking at greenhouse gas emissions on a full-cycle basis.

Mr. Francis Valeriote: It is just the emissions.

The Chair: Thank you, sir.

We'll go to Mr. Lake.

Mr. Mike Lake: I wonder if I could talk a little bit about labour. As you know, over the last few years, Alberta, in particular, has experienced a significant labour shortage, actually prior to this global economic slowdown. Maybe you could comment on how significant that was. What was the impact of that labour shortage in terms of your members? Maybe talk about any impact on the projects that have been pipelined, so to speak, for a while in Alberta.

Second, I noticed, Mr. Leach, in your presentation that one of your bullet points actually talks about looming workforce shortages, which I found kind of interesting in this context. Maybe talk about the future as things start to rebound. What challenges do you foresee us having, from a labour standpoint, and what might the impact be?

Mr. Gary Leach: Sure, I'd be happy to do that.

The largest part of the workforce, actually, is in construction, drilling, and the service sector. I wonder if I might first defer to Mr. Herring on labour issues.

Mr. Don Herring: Chair, we've had significant reductions in our workforce. About 20,000 of our workers are unemployed. Our workers don't live in Calgary and Edmonton. They live in the small towns and villages across western Canada and in different parts of Canada generally. They're the people who are immediately impacted, and they're laid off. We did have a run-up in activity levels, of course, in 2005 and 2006. We competed against people who were offered work in the oil sands. That tended to increase our wages and increase our costs, and we attempted to address that by putting in place a trades system, for example. We were trying to demonstrate a career path for individuals who would come into our industry. Of course, to be an effective career path, you need a stable economic environment. We don't have one. Some of that is no fault, obviously, of Canada or its provinces.

At the end of the day, we're experiencing significant reductions in our workforce. We will have difficulty, when there is a recovery, trying to attract them back into the business. It depends on how the recovery is managed and on whether it becomes driven by the oil sands or in fact by investment in natural gas, for example, or conventional oil. That becomes us basically. We supply the workforce for that.

● (1030)

Mr. Mike Lake: Mr. Leach, when you talk about looming workforce shortages, what are you referring to there?

Mr. Gary Leach: From our perspective in the upstream exploration and development industry, the key workforce is engineering, geoscience, and financial people. Most Canadians understand that our workforce is aging. We're going to be losing far more of that kind of professional expertise and talent in the next 10 years than we are gaining from new entrants to the workforce. This is a very technical industry. It requires a lot of expertise to make this enormous oil and gas industry we have in Canada work from the drilling end of it right through the pipelines to the refineries.

As we lose that talent through the retirement of some of the key people in the workforce, we don't see the same number of young people coming in with the geoscience backgrounds, the engineering backgrounds. Canada is not turning out enough graduates. In the last few years we have seen some increasing international migration into the oil and gas sector, but probably not enough to offset what we described as looming shortages of some key technical and scientific people.

Mr. Mike Lake: One of the things we've talked about here, and we've had other industries come, is the difference between cyclical versus structural challenges that industries are facing. Some are facing more structural challenges, where there may not be a bounce back when the economy recovers. Some are more cyclical, in the sense that there's going to be that bounce back. What I'm hearing you saying is that the challenge for you, in terms of workforce shortages, might actually be an opportunity for many Canadians who may be working right now in more structurally challenged industries. With some skills programs and some of the things that we've put in place from a transition standpoint, there may be an opportunity for some workers to benefit, as we come out, by maybe making a transition to your industry.

Mr. Gary Leach: Our industry associations are collaborating through a national council called the Petroleum Human Resources Council of Canada on long-term career development issues by getting information out to young Canadians about careers in the oil and gas industry in Canada, what kinds of career opportunities there are, what kind of educational background is needed. As Don knows, recruiting has been done in the forestry industry in western Canada and other hard-hit sectors to encourage workers there to look at opportunities in oil and gas as well.

In fact, as many people know, there's been a huge migration to western Canada, particularly Alberta, from the maritime provinces for the last few years. To the extent that we can draw workers from other sectors, that's part of what we're trying to do as well.

Don, I don't know if you want to add to that.

The Chair: Sorry, Mr. Herring. Can you just hold that thought?

If we're going to go through the round, Mike, you'll get another chance.

Monsieur Bouchard.

[*Translation*]

Mr. Robert Bouchard: Thank you, Mr. Chair. Once again, any of our witnesses may answer my question.

I understood you to say that the main problem facing the oil industry was access to credit. How do you go about this? Are there loan guarantees or subsidies, or financial assistance to reduce the interest rate? Someone said that one company has to pay 12% interest to borrow money. Is that correct?

I would like to hear more about what sort of assistance you seek.

[*English*]

Mr. David Daly: I think we're asking for the federal government, to the extent that it can, to try to persuade the chartered banks to free up some of their capital, some of the available capital loans, to industry in general and oil and gas in specific. Not to single out oil and gas, but credit is still very tight. I think Mr. Herring and Mr. Leach have mentioned that it's still very tight in terms of interest rates and just in terms of being available. Even if you as a company are willing to pay the interest rate, the banks are not giving out loans. They're not freeing up lines of credit, and they aren't giving out any guarantees in terms of their ongoing support for financing this year or in multi-year projects.

I know that in the last budget, the federal budget, there were a number of funds devoted to try to help free up capital, and to the extent that can do some good in terms of persuading the banks to free up their capital lending, that is what we're looking for. We're not looking for any types of specific loan guarantees from the federal government itself. We're looking for the federal government to persuade the banks to free up their capital.

● (1035)

[*Translation*]

Mr. Robert Bouchard: I have one other question, and once again, it is not directed to anyone in particular. The people I represent in my riding have noticed that when the oil industry is worth $150 billion, they pay about $1.50 a litre for gas, and when it is worth $80 billion, they pay an acceptable price at the pump. When that happens, I hear a lot fewer comments—no one complains.

In my riding, or even in my region of Quebec, when the oil industry is at $150 billion, people realize that we are all too heavily dependent on oil. What should I be saying to my constituents to urge them to support the oil industry, which is important? What should I be telling them?

[*English*]

Mr. Gary Leach: Well, there's no substitute for petroleum for transportation fuel. As far as we can see into the rest of the century, motor vehicles will be fuelled largely by petroleum products.

As I mentioned earlier, we cannot control the global price of crude oil. It's often established by events outside our control, but we often say in this industry that the best cure for high prices is high prices, because they tend to bring on more supply and to induce energy conservation measures. Most of the time when prices have been high in the past—and we've just seen this in the last year—they have also tended to come down fairly quickly, because there's an immediate demand destruction caused by high crude oil prices and an immediate response from our industry, as best we can, to bring on new supplies.

I would ask you to tell your constituents that if they have some uneasiness with the development of Alberta's oil and gas reserves, particularly the oil sands, they should understand that allowing us to develop these sources of energy is the best hope we have in North America to ensure that we can be somewhat insulated in terms of security of supply, and also to be somewhat insulated in Quebec from prices of transportation fuels.

As I said, the best cure for high prices is often high prices, because they cause the demand destruction that brings down prices and they bring on new supply, which also has the same effect.

So if your constituents can be patient, they'll often find that if they wait a few months, prices will come down. It doesn't help our industry so much to have to live with that volatility, but there's often a corresponding period of lower prices to offset the high price spikes.

David.

Mr. David Daly: I think there's one other thing to remember. First of all, we're the upstream petroleum industry, so we don't really speak on behalf of refiners and marketers who sell gasoline and other refined products. But from our general knowledge of that business, a lot of the fuel price, whether it's gasoline or diesel fuel or other prices, is taxes—taxes that go to the federal government and the provincial governments. So quite a bit of what you pay at the pump ends up going to Ottawa and Quebec City. That would be one thing to point out to a number of consumers.

As well, as Gary has pointed out, higher prices do spur more investment activity in alternative fuels, and they also support not just the industry in Alberta or Saskatchewan or British Columbia, but also a lot of the materials that the oil sands industry, for example, sources for new projects. A lot of that is sourced from foundries in southern Ontario and equipment manufacturers in Quebec and other parts of Canada.

So there is a spin-off and feedback relationship that goes into developing new and unconventional sources of oil and gas, which support the industry across the country.

● (1040)

The Chair: Thank you.

Mr. Lake.

Mr. Mike Lake: You stole some of my thunder, because that was the next direction I was going to go in, talking about the importance of the oil and gas sector to the rest of the country.

I think my first question, though, will just be for Mr. Herring to continue his comments from my last round on the labour challenges.

Mr. Don Herring: Sure.

What we have tried to do very consistently, and continue to this day, is to run job fairs across Canada. We also actively visit with educators and try to point out what we as an industry have available.

Of course, as Gary has indicated, we are facing a demographic that's interested in working outside. In order to recruit them, we look to places like Quebec, for example, in the forest industry, in the mining industry, in areas where a lot of physical work is required. If those industries are not functioning at peak capacity, then perhaps there is some additional labour that can work on our equipment.

So we actively do that, even though we are facing some pretty significant decreases in our ability to employ people.

Mr. Mike Lake: Further to that—maybe each of you could comment on this—one of the things that I've seen from companies in the industry is a real effort to accommodate the fact that many Canadians across the country don't necessarily want to move all the way to Alberta. I don't know why they wouldn't want to move to Alberta, but some people like to stay where they're from.

There has been an effort to accommodate that in terms of a supplier standpoint—for example, having inputs manufactured in Ontario and then shipped to Alberta for use, as opposed to manufacturing them in Alberta, where labour has been a little bit tighter.

I've also heard stories that some companies actually will charter flights to fly workers from one place in the country to another. They'll pick them up, bring them in for a couple of weeks at a time, and then fly them back. The workers actually still live in the place where they grew up. They're able to come out and work, but then they're able to go back and invest their income into their own communities, which I think is important.

I've heard that when things were at their height in terms of the industry, there was a real impact in places like Cape Breton and parts of Newfoundland. Folks were building new houses. There was a construction boom, almost, that was fuelled, in a sense, by the income that people were bringing back from their jobs in the oil sands.

Could you speak to that and give some examples, if you have any?

Mr. David Daly: I think you're very right. There has been an impact on employment across the country in terms of sourcing workers from across the country in order to work in new development projects in Alberta.

You cited examples of where companies have tried to accommodate workers' concerns—about having to pick up and move the whole family outright, across the country—by flying them in, letting them do basically long-distance commuting for a time, and then flying them back. That's certainly something that we've seen, especially through the peak of 2007-08.

It's not so common today, as the industry is sort of in reverse, but that's a short-term phenomenon. I think we'll get back, as we talked about earlier, to a period where, once the economy recovers, we'll be having to source labour from across the country again, and from outside the country again.

I think it's also important to remember that it's a national industry. It's not just an Alberta industry that sources from around the country. It's a national industry. We have oil and gas exploration and development activity around the country.

We've seen developments of offshore processing off Newfoundland and Labrador, and off Nova Scotia. To the extent that those are continuing and growing, they demand labour right there. So Newfoundlanders and Nova Scotians have been able to find jobs in the oil and gas industry by staying right in their provinces. To the extent that industry is taking an interest in doing more exploration and development activity there, then that creates more jobs there.

Likewise, north of 60, there has been more interest and activity in the Mackenzie Delta. Certainly there has been a lot of growth in Saskatchewan, in British Columbia, even Manitoba, that didn't have very much interest before. There was always a little bit of drilling, but not as much interest as has been displayed in the last couple of years. There has been quite a bit of growth there as well.

Even Quebec and Ontario do have a bit of their own oil and gas production.

● (1045)

Mr. Don Herring: Mr. Lake, let me answer it this way.

The drilling industry, again, has been in Canada for 60 years. Up until the last decade or so, ours was a seasonal industry. I pointed that out in the charts. We put people to work in the winter in great numbers; in the spring, they'd do something else. Perhaps they'd go home or they'd go to school. They'd do something else, and then we'd start again in the summer.

In decades past, we were counter-seasonal to the agriculture industry, so we attracted a lot of people who were farmers. They would come to work for us in the winter and go back to the farm in the summer. Of course, the average age of a farmer in Canada is around 60, so we can't get those guys anymore.

Now we go across the country recruiting them. We go to Newfoundland, we go to Quebec, we go to Ontario, we go to northwestern British Columbia. We bring them to work on our rig in the winter and they go home in the spring. That's why, when we put the rig technician program together, we wanted it across the country: when we send them home in the spring, we want them to take their actual in-school training in Newfoundland or British Columbia or Saskatchewan.

The Chair: Go ahead, Mr. Thibeault.

Mr. Glenn Thibeault: I'm from Sudbury. We also do a lot of drilling; it's just a little different.

I'd like to pick up on one thing Mr. Lake was talking about. We have a skill shortage as well in the mining sector. We can't keep enough people in the mines. Unfortunately, with the mine closures right now, we do have some people who aren't working. When we talk about boom-or-bust cycles, we know a boom-or-bust cycle as well.

What does your industry do to ensure that when the pendulum swings the other way, there will be people who are going to be there to work? Do we need to do something federally? Is it something we can look at? I'll open that question up to anyone.

Mr. Gary Leach: I think the depth of the current slump in our industry caught a lot of us by surprise. We weren't anticipating it. However, the expected labour shortage we're facing as an industry means that our industry won't let up in its efforts to encourage universities and colleges to turn out the graduates we're looking for and to encourage the drilling and service sectors to continue to do what they can to make sure they have an adequate and trained labour supply.

The extreme volatility in the oil and gas industry, or any commodity business, makes it difficult, because just when you think you're bringing on young people and convincing them they have a career, we have one of these sharp downturns, and unfortunately people have to be laid off. What's different this time, I hope, is that because we're this much closer to this demographic slump, companies are able to see through the current slump a little bit better and do more than they might have done a decade ago in terms of attempting to retrain, reassign, or otherwise hold on to their workforce. They know that three or four or five years from now, we are going to have a permanent, steady attrition in the workers we have, and we currently don't see enough coming on among the younger population.

● (1050)

Mr. Don Herring: Mr. Thibeault, we'll give you a blueprint that can help you establish a trade in the mining industry in your area.

Mr. Glenn Thibeault: Great.

I want to go back to what I was talking about earlier in relation to the need to go green. You brought out some important statistics: 2% is going to be through wind and solar, and 70%.... I'd like you to quote that again, once the questions have....

Are there investments going into research and technology? Are there jobs there right now for people who may unfortunately have lost their jobs in the oil and gas sector? Is this something they can look to and get involved with, and can they perhaps create a small or medium-sized enterprise to do research and technology to help us get greener?

Mr. Gary Leach: Are you asking about alternative energies?

Mr. Glenn Thibeault: No, no. Right now, can we take petroleum and make it greener? Is technology looking at making petroleum greener, or is it as green as it's ever going to get?

We've heard the stories of way back when. If you go back 50 or 100 years, we've come a long way. Are we looking at moving even further? Is research and development going on in this sector?

Mr. Gary Leach: My first response would be to never forget that natural gas is probably the cleanest and most benign fuel we have, and I include nuclear and hydro. Natural gas has the least environmental impact, and we have some tremendous natural gas resources that will last us many decades in this country.

Is the overall petroleum industry getting greener? Yes, it is. David could cite some statistics. I think he referred to a few in terms of reduction in flaring and venting and in terms of reduction in water use.

One of the members asked me about the four or five barrels of water that are consumed to produce a barrel of oil. I want to point out that what a lot of people don't realize is that it takes about 140 litres of water to produce a cup of coffee. It takes thousands of litres of water to produce a pound of hamburger. It takes four bottles of water to produce one bottle of water. Any industrial process of any kind consumes water.

Our industry has done a tremendous job in reducing water use in the last years and will continue to improve on that. There's a tremendous amount of research going on in terms of reducing energy use, reducing water use, and reducing all kinds of inputs in terms of producing energy outputs. There are some great career opportunities for Canadians to work in that field of the Canadian oil and gas industry.

Mr. Glenn Thibeault: That's what I was trying to lead to. The pendulum is on this side. Instead of losing all these people moving back to different parts of the country, is there some way we can keep them in that area, so that when the pendulum swings this way, they can get right back into it?

Mr. Gary Leach: There are a lot of opportunities. I would argue that the Canadian government could be doing more to fund that kind of specific research, as opposed to funding alternative fuels outside the oil and gas sector. We know of all the interest in biofuels and that sort of thing, but a tremendous amount of research could be done in improving energy efficiency and in greening the oil and gas sector.

It may be worth further dialogue with the federal government to talk about opportunities there.

The Chair: Gentlemen, that concludes our meeting.

You've been very helpful. I think all of us have a better understanding of the oil industry and what it means to Canadians. We thank you for the time you've spent with us. I think at this point we can conclude our meeting.

I want to say to the members that the clerk has been actively engaged in trying to get witnesses for Thursday. To this point we haven't had success, but we'll keep you tuned on that.

I have one question. At what point is oil profitable? We're trading at about $54 a barrel.

Mr. David Daly: It's at about $50 a barrel, give or take a few dollars.

The Chair: For the oil sands, at what point will we see investments start to flow back?

Mr. David Daly: Up until about a year ago, companies were talking about needing somewhere between $80 and $100 a barrel. That had a lot to do with the high cost of steel and other raw materials. Now steel prices and some other raw material prices have come down. I think projects are now looking at $60 to $75 a barrel in order to be viable to go forward. We're not far from that.

● (1055)

The Chair: Of course, that will start to shift again, because once the prices go up, commodity prices start up, but you're saying that at this point they earmark at about $70.

Go ahead, Mr. Herring.

Mr. Don Herring: Mr. Chairman, may I leave you with one statistic, as there has been a huge focus on greenhouse gases and becoming greener?

When we participated in panels across the country through the Kyoto hearing process, we left a number with many groups, not because it had anything to do with the environment, but because it makes good business sense in a high-cost environment. As we continue to invest in our equipment, what we're looking for is trying to provide a service that costs less. The way we've provided a service that costs less is by having smaller engines and fewer of them, and we have technology invested in drilling more efficiently.

The upshot is that we have a 50% reduction in greenhouse gases—the consumption of diesel fuel—per metre drilled.

The Chair: That's very good.

We thank you very much.

The meeting is adjourned.

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