



CANADIAN ASSOCIATION  
OF PETROLEUM PRODUCERS

Canada's Oil and Natural Gas Producers

## Pre-Budget Consultations 2013

### Maximizing Employment Opportunities for Canadians

Submission to

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## Introduction

The Canadian Association of Petroleum Producers (CAPP) represents companies, large and small, that explore for, develop and produce natural gas and crude oil throughout Canada. CAPP's member companies produce about 90 per cent of Canada's natural gas and crude oil. CAPP's associate members provide a wide range of services that support the upstream crude oil and natural gas industry. Together CAPP's members and associate members are an important part of the national economy with revenues of about \$100 billion a year. CAPP's mission is to enhance the economic sustainability of the Canadian upstream petroleum industry in a safe and environmentally and socially responsible manner, through constructive engagement and communication with governments, the public and stakeholders in the communities in which we operate.

CAPP thanks the House of Commons Standing Committee on Finance for the invitation to prepare and submit a supplementary brief to our August 2013 pre-budget comments and recommendations, and to participate in the Committee's November 21<sup>st</sup> panel on **Maximizing Employment Opportunities for Canadians**.

Our August 2013 comments included recommendations in three areas:

- Trade and Investment – the importance of continued efforts to gain additional access and build infrastructure to diversify our export markets and reach new markets overseas for both oil and natural gas.
- Business Taxation and Regulatory Issues – the need for continued regulatory reforms and to ensure a competitive and effective tax structure to continue to attract investment capital.
- Employment, Labour Markets and Unions – with continuing growth prospects in this sector, the essential need to ensure available and skilled labour with policies that both promote Canadians first and supplement Canadian workforce availability with skilled foreign workers.

This brief summarizes those comments and ties them directly to the panel topic of **Maximizing Employment Opportunities for Canadians**.

## Market Access and Export Diversification (*Trade and Investment*)

The Canadian upstream petroleum industry is active from coast to coast. We are a significant contributor to the national economy with more revenues (over \$100 billion), more investment (over \$60 billion) and more presence on the Toronto Stock Exchange (over 20 per cent of all shares traded) than any other industry in the country. Canada has the third-largest reserves of crude oil in the world, well in excess of 100 years supply of natural gas, and is the world's fifth largest producer of natural gas. Federal, provincial and municipal governments receive about \$20 billion a year in royalties and taxes from Canadian producers, and over half a million Canadians rely on the industry for well-paying jobs and challenging careers.

Canadians rely on industry's ability to export supplies of crude oil and natural gas that are surplus to Canadian needs. For decades, Canada has had an excellent trading relationship with its only customer, the United States. However, in recent years the U.S. has increased its natural gas production to the point that imports from Canada have declined by 16% over the past five years, with projected continued decline. U.S. domestic production of crude oil has also increased, constraining transportation infrastructure and restricting Canadian crude oil access to international market pricing. While the U.S. will remain an important market for the Canadian oil and gas industry, U.S. progress toward energy self-sufficiency is reducing U.S. demand for Canadian oil and gas supply and increasing the impetus for Canada to diversify markets to both ensure a market outlet and realize global prices.

Export diversification and infrastructure development to access to new markets, especially the growing energy-consuming markets of Southeast Asia, are crucial to the long-term viability and growth of the Canadian upstream petroleum industry, and to the continued contribution of our industry to the national economy and to the overall prosperity of Canadians.

While U.S. import demand is flat to declining, Asian and other international oil and gas demand is growing. The federal government can help Canadians access these new markets by continuing to promote the Canadian brand abroad as a reliable, innovative and well-regulated supplier of energy. More importantly, it can help to facilitate the timely development of critical domestic infrastructure to broaden access to international markets, engaging with the provinces to enable market access and infrastructure opportunities in all geographic directions and scales. This starts with an overall alignment and agreement among federal and provincial/territorial governments on the goal of diversifying Canada's access to international markets, to then move to specific actions and solutions for achieving:

- Public awareness and acceptance of the socio-economic benefits achievable for all Canadians, including our First Nations and aboriginal communities.
- Public confidence in the various environmental safeguards that are in place, such as marine and land-based spill prevention and response, as well as all other aspects of industry activity.
- Continued investor and market confidence that unnecessary or duplicative regulatory burdens will not impede successful capital deployment and project execution.

Growth of the oil and gas industry creates job opportunities for Canadians across the country. The direct impact is on the energy, manufacturing, innovation, technology and construction sectors. In addition, there are spinoff impacts on service industries such as environmental and financial consulting, hospitality and transportation. Aboriginal Canadians and businesses stand to benefit from business development employment, contracting and training opportunities.

The Finance Committee recognized the importance of export market diversification in its December 2012 report to the Minister with the recommendation that:

*"the federal government expeditiously encourage and support the development of infrastructure in relation to liquefied natural gas exports."*

We note that this recommendation remains relevant and request it be further expanded to include support for oil transportation infrastructure to access both domestic and international markets.

Ensuring the growth and market diversification of the oil and gas industry is a key factor in maximizing employment opportunities for Canadians.

## **Continued Regulatory Reform and Ensuring a Competitive Tax Structure (Business Taxation and Regulatory Issues)**

The upstream oil and gas industry needs both investment capital and a sufficient available skilled workforce to capitalize on the growth opportunities ahead. With more than \$60 billion in annual investment in exploration and development, the industry is highly dependent on attracting foreign investment capital to augment available domestic capital. International investment capital is highly sensitive to expected rates of return, legal protections for investor capital, and the level and complexity of regulatory burden. A competitive tax structure is also necessary to attract investment capital.

It is essential to continue to demonstrate that Canada is business-friendly and attractive for investment. In this regard, the federal government also needs to continue to focus on timely implementation of key regulatory reform initiatives.

Bills C-38 and C-45 work to improve regulatory efficiency while ensuring the responsible environmental outcomes Canadians expect. Effective and efficient supporting regulations and policy, implemented on an aligned “whole of government” and timely basis, are needed to realize the intended benefits of this legislation. Additionally, federal, provincial and territorial governments need to collaborate and be aligned, particularly for “best-placed” regulators as a single-window for regulation and to incorporate substitution and equivalency provisions.

All sectors of the economy benefit from a competitive and streamlined regulatory system. In particular, the energy sector, including crude oil and natural gas, will be better enabled to advance projects that create jobs and grow the economy. Natural resources development occurs in every region of the country. This includes promising resource development in Eastern and Atlantic Canada, the opportunity to link the country's access to energy from west to east, and the growing potential for northern development. Improved clarity and efficiency of regulatory processes benefit government, industry and aboriginal peoples alike.

In particular, the federal government can reduce investor uncertainty and encourage continued robust investment in the Canadian oil and gas sector by focusing on Canada's global competitiveness and advancing balanced policy and regulation in the following areas:

- Implementation of CEEA legislative and regulatory change;
- SARA reform, including legislation and regulation;
- Implementation of Fisheries and Oceans Act regulation;
- Climate policy and regulation; and,
- Implementation of air quality policy and regulation.

The tax structure applicable to the Canadian upstream oil and gas sector must be competitive and treat investment capital equitably across sectors. While the Canadian government has made significant strides in reducing the overall corporate tax rate, we note there are continued inequities in tax treatment of some investments in our sector. In particular, for the 2013 Budget CAPP pointed out that the tax structure was inequitable in not recognizing that natural gas liquefaction was, indeed, manufacturing and processing (M&P). As such, we remain of the view that LNG facilities should be treated for tax purposes in the same manner as other M&P investments across the economy.

## **Ensuring Available Skilled Workforce (*Employment, Labour Markets and Unions*)**

Access to markets ensures an outlet for Canadian oil and gas production, as well as connectivity to global market prices. Access to capital ensures the funding necessary to realize the economic potential that is available. Both contribute to the conditions necessary to generate the jobs that maximize employment opportunities for Canadians. Without access to the required skilled workforce, Canadian workers and the Canadian economy will potentially fall short of capitalizing on a valuable and timely opportunity.

With projected continuing growth, the upstream oil and gas industry expects to add another 125,000 to 150,000 direct employees over the next decade. Enabling workforce availability – including unskilled labour, skilled tradespeople, economists, engineers and so on – is essential to ensuring continued economic development and growth.

While there remain some issues to be resolved with the provinces, the federal government has taken positive steps forward with the Canada Job Grant Program. It can further help by strengthening programs to develop our overall workforce. The federal government should continue to strengthen essential skills development, training and education programs for all Canadians, enhance the linkage between post-secondary education and required workforce skills, reduce barriers to interprovincial workforce mobility, and continue Employment Insurance (EI) system reforms to allow better connection between employers and job seekers. We suggest the federal government consider tax incentives and EI initiatives to encourage better workforce mobility. These skills will be most needed in construction, transportation, natural resources extraction and manufacturing. This needs to be a comprehensive “Canadians first” approach, one that targets under- and unemployed Canadians, including in aboriginal communities, to ensure that growing employment opportunities benefit Canadians first and foremost.

Even with such a concerted “Canadians first” approach there will remain a gap between the number of employees required and the number of Canadians available to fill those jobs. The federal government needs to augment its programs with strengthened and clear permanent immigration and Temporary Foreign Worker programs. This is essential to ensure the necessary supplemental supplies of skilled labour from abroad.

These views are consistent with the Finance Committee’s numerous and specific workforce recommendations in its December 2012 report. Those recommendations included federal-provincial support for development of skilled trades and foreign credential recognition; modernizing Canada’s immigration system to a “fast and flexible” system better focused on labour market needs; reviewing the Temporary Foreign Worker Program to ensure it better and more accurately responds to Canada’s labour market needs; and continuing to reduce barriers and support training programs for aboriginal peoples participation in the labour force.

Consistent with the Committee and the federal government’s stated objectives, CAPP proposes the following:

- To support youth employment and to reduce under-employment and unemployment, we encourage the federal government to strengthen the link between funding of post-secondary education programs with the skills employers need;
- Reduce barriers to labour mobility, which is a barrier to workers accessing jobs across Canada; and,
- We encourage the federal government to continue to strengthen the TFW program and permanent immigration program in order to enable companies to compete globally for skilled workers in alignment with workforce needs.

## Conclusions

Canada’s oil and gas industry is at a critical juncture, and actions taken today will impact the success of our industry well into the future.

Three key factors will greatly influence the continued success of our industry.

First, industry must be able to diversify markets. This means access for Canadian crude oil to markets to the east, west and south. It also means enhanced market access for Canadian natural gas, particularly for

producers in Western Canada, whose traditional markets in the U.S. and Central Canada are expected to continue to decline.

Second, Canada's oil and natural gas industry must be able to attract investment capital in a competitive global market in order to sustain and grow Canada's upstream sector. Investment capital is mobile and will flow to jurisdictions where it is expected to provide the best returns to investors. To enable Canada's industry to compete, industry must be able to operate in a regulatory and fiscal environment that is stable, predictable and competitive with that of other jurisdictions, both within North America and internationally.

Third, the oil and natural gas industry must continue to have access to a skilled workforce. To address this challenge, training programs and post-secondary education must be matched to labour market demands, workforce mobility must be encouraged and immigration must be enabled so as to allow industry to compete for workers internationally.

Success in addressing these three key factors – market access, competitiveness and workforce availability, all of which are to a large extent influenced by federal government policy – will largely determine the future of Canada's upstream oil and natural gas sector, and consequentially Canada's future prosperity.