

Sustainability of Canada/Alberta's Energy Industry

Issue

Global energy demand is increasing, thereby creating a need to develop energy in all forms. Canada has the opportunity to become one of the world's preferred energy suppliers, generating economic benefits across the Nation and reducing environmental impacts domestically as well as internationally.

In order for Canada to compete on the global stage, the industry must maintain competitiveness and attract new global investment. However, at a time when global demand is on the rise, Canada's investment in upstream oil and gas is expected to decline, or at best remain flat. For several years, investor confidence in Canada's oil and gas industry has eroded and continues to be a concern due to a number of factors. Amongst these are market access, regulatory uncertainty, and the cost of doing business (which includes regulatory costs).

Background

Canada is the fifth largest global producer of natural gas and the sixth largest global producer of oil. With our vast resource base, world leading environmental standards, and all-encompassing regulatory regime, Canada should be a global supplier of choice. Unfortunately, a number of market dynamics have resulted in reduced investor confidence over the past several years, leading to a shift in Canada's competitiveness in the global market.

This lack of investment has also impacted Canada's downstream value-add sector that includes petrochemicals, chemicals and fuels. Canada has an advantaged feedstock position for downstream manufacturing, but with the cuts in upstream spending and limited fully integrated projects, Canada is not capturing the full value of its resources in the production of higher valued products for domestic and international markets.

- The Federal and Provincial governments have been making strides to encourage further upstream and downstream investments. Examples include:
- The Federal Government recently announced enhancements to the Accelerated Capital Cost Allowance (ACCA) that allows for 100% immediate deductibility for eligible machinery and equipment in the year that it is put in use.
- The Alberta Government has offered a total of \$1.1 billion in investment programs for chemical investments through the Petrochemical Diversification Program and a further \$1 billion in incentives for Petrochemical Feedstock Infrastructure Program to support increasing feedstock supply. As well, the Alberta Government.
- The Alberta Government has also offered \$1 billion in grants and loan guarantees as part of its Partial Upgrading Program to encourage additional bitumen upgrading facilities.
- Ontario Government announced a major regulatory burden reduction initiative to streamline and modernize regulatory requirements in order to attract world-scale investments.

These actions will help to improve the business case for investing in Canada, but further challenges need to be addressed in order to become a leading region for investment opportunities.

ENERGY

Challenges

Canada's economy has always been highly dependent on our largest trade partner, the United States. Our energy industry has relied on the significant demand in the US for our oil and gas resources. However, since the "shale gale" commenced, the US has lessened its need for resources from Canada as it progresses to become self-sufficient in resource development. Canada now requires new markets to sell its energy resources into in order to continue to see investments occur.

Market Access

Increased market access is critical to ensure further energy-related investments occur in Canada and to compete in the global marketplace. With recent debates over pipeline expansions and the Federal plans for Bills C-69 (Canadian Environmental Assessment Agency and National Energy Board review) as well as the elimination of C-48 (West Coast Tanker Moratorium), concerns over future certainty for oil and gas investments will continue until economic solutions can be found to address market access issues.

Regulatory Competitiveness

Provincially, Canada has some of the most stringent regulatory standards in the world. But with this status comes challenges. In Alberta, concerns have been raised for years regarding regulatory process inefficiencies, long approval timeframes, and increasing costs to meet regulatory requirements. These challenges lead to a loss in investor confidence and eventually driving investments to other regions where the regulatory systems are not so complex. There is a need for balance in enabling efficient and transparent regulatory processes to enhance industry competitiveness while achieving environmental goals and meeting community needs.

Economic Policy

A competitive fiscal framework encourages investment not only in resource extraction and value-add manufacturing but also in research and innovation. Combined, the opportunity exists to create a highly competitive and world-leading environment for industrial development that meets global market demands.

Canada has a history of driving innovation to meet product and environmental needs. Canadian made technologies have been shared around the world raising awareness globally of the innovative expertise in our energy industry. Further opportunities exist to drive innovation. Finding ways to extract higher rates of resources with less impact on the environment is a key area of interest to the upstream industry. As well, the downstream industry is also focused on operational efficiencies and the development of products that achieve global demands (ie. – reducing plastic waste, developing next generation fuels, and developing green building products)

Taxation in Canada was once highly competitive compared to the US, but recently the US has put in place tax reforms that have caused Canada's fiscal framework to fall behind. The average US combined federal and state corporate tax rate is now 25.75%, according to a recent report by Grant Thornton. Texas, which has the majority of US investment in oil and gas development, has zero corporate tax rate therefore companies only pay a federal rate of 21%. When comparing this to Canada, the combined federal and provincial corporate income rate for Alberta is 27%.

Conclusion and Recommendations

Canada has incredible opportunities to be a global competitor in resource and value-add investments to meet the growing demands around the world. Governments must work together across Ministries and with private investors in understanding how we compete on various stages for investment with other countries in order to develop strong policies that encourage both energy and economic sustainability in the long term.

The Alberta Chambers of Chamber of Commerce recommends that the Government of Alberta:

1. Works with Municipal Governments, the Federal Government and Industry to create guiding principles that reduce regulatory burdens which creates an environment where Alberta Industry is globally competitive in project timelines, economic competitiveness;
2. Establish policies that are clear, transparent and provide long-term certainty to investors; and
3. Provide a clear and concise policy on stakeholder engagement and consultations that is consistent between all projects.