



CANADIAN ASSOCIATION
OF PETROLEUM PRODUCERS

January 15, 2008

L.R. Wilson, Chair
Competition Policy Review Panel
280 Albert Street, 10th Floor
Ottawa, ON
K1A 0H5

Dear Mr. Wilson:

In its consultation paper, *Sharpening Canada's Competitive Edge*, the Panel invited written submissions from interested parties on matters relevant to its review. On behalf of our member companies, the Canadian Association of Petroleum Producers (CAPP) is pleased to offer this submission for the Panel's review and consideration.

CAPP represents 150 companies that explore for, develop and produce natural gas, natural gas liquids, crude oil, oil sands, and elemental sulphur throughout Canada. CAPP member companies produce more than 95 per cent of Canada's natural gas and crude oil. CAPP also has 130 associate members that provide a wide range of services that support the upstream crude oil and natural gas industry. Together, these members and associate members are an important part of a \$100-billion-a-year national industry that affects the livelihoods of more than half a million Canadians.

Canada's Competitive Edge: Boring, But Not Dull

It is safe to say that competitiveness and productivity have not been top of mind issues for the majority of Canadians. The issues do not quicken the heart rate. Some would describe the subjects as boring or academic, and this is understandable. There are other public policy issues competing for our attention, and many have a greater sense of immediacy and relevancy to our daily lives. Moreover, our current economic and fiscal accomplishments have masked future challenges. The economy continues to enjoy impressive growth, unemployment is at a 33 year low and governments are building on the new Canadian tradition of fiscal responsibility.

There are few issues, however, in which the relationship between public policy and the prosperity and well being of Canadians is so direct. Demonstrating that relationship to Canadians is an important task for governments, the Panel and all concerned parties. The time for such a discussion is now, especially as concerns mount regarding the future of many Canadian industries and the country's economy.

We very much agree that Canada has many of the fundamentals right and the foundation of our competitiveness and prosperity has been our commitment to free and fair trade, particularly with our

2100, 350 – 7th Ave. S.W.
Calgary, Alberta
Canada T2P 3N9
Tel (403) 267-1100
Fax (403) 261-4622

403, 235 Water Street
St. John's, Newfoundland
Canada A1C 1B6
Tel (709) 724-4200
Fax (709) 724-4225

Email: communication@capp.ca Website: www.capp.ca

largest trading partner. As we look to sharpen Canada's competitive edge we must also guard against any attempts to undermine or strengths. In times of economic stress on both sides of the border, a careful eye must be maintained on attempts to impede free trade under the guise of other concerns or objectives. By way of example, the oil and gas industry is discussing such concerns with the federal government in respect of Low Carbon Fuel Standards under consideration by some U.S. States and Canadian provinces.

The federal government deserves recognition for the focus and attention it has been bringing to these matters. *Advantage Canada* makes the issues real and relevant for Canadians and sets clear priorities and realistic goals. Most importantly, the federal government is following its own plan.

CAPP, through its membership in other business associations, is contributing to a detailed response to all of the questions posed by the Panel. In this submission, CAPP focuses in on two higher level areas for discussion:

- The role of sound public policy in building a globally competitive industry and the resultant benefits to Canadians, drawing on the experiences of the upstream oil and gas sector. As the title of your consultation paper suggest, Canada's competitive edge is not dull. The exercise is one of sharpening, not remaking.
- With this in mind, the greatest barriers to encouraging greater outbound and inbound foreign direct investment are not distinct from those holding back growth, innovation and excellence domestically. Sound policies at home make Canada an attractive place for all to invest and create an environment that encourages global ambitions and expansion.

With respect to the *Investment Canada Act*, we do wish to register our support of the Guidelines for state-owned enterprises wishing to invest in Canada as they provide greater clarity as to how the Act will be applied. With respect to the *Competition Act*, the strength of competition in the oil and gas sector speaks to fitness of the Act at a high level. Amending the *Competition Act* in regard to market studies and section 45 is neither necessary nor desirable. These proposals, as well as some others such as the treatment of efficiencies under the Act and increasing AMPs, have been fully debated over the past several years and we agree that these changes should not be made. We do support changes that would make the merger review process more efficient.

Canada's Upstream Oil and Gas Industry as Case Study

The upstream oil and gas industry is delivering benefits to Canadians in every province and territory. It is the largest private sector investor in Canada, investing \$49 billion in 2007. The sector now accounts for 25% of the value of the Toronto Stock Exchange, 80% of Canada's trade surplus, and 14% of total exports. The industry paid \$26 billion to governments in 2007 and affects the livelihoods of more than half a million Canadians.

A recent paper by Statistics Canada, reflecting on the size and significance of the sector, suggested that rather being 'hewers of wood and drawers of water', it is more accurate to refer to Canadians as 'conveyers of crude and moilers of metals'. While the phrase is awkward and less than inspirational, the point is accurate.

Canada has been blessed by energy resources, remarkable in their abundance and variety. Oftentimes, it is assumed that the growth and prosperity flowing from the sector was easy to achieve or the inevitable result of higher commodity prices, particularly for oil. While such a view distorts the realities and challenges facing the industry today, it also mischaracterizes our recent history.

Canada's oil and gas industry was required to face global competition before many others, due to the nature of the sector. We are price-takers, meaning that prices are set globally and regionally, for oil and gas respectively (natural gas is moving in the direction of a global price with the growth in transportation options such as liquefied natural gas). In such a world, investment dollars are mobile and follow opportunities with the greatest return on investment.

The strength of Canada's oil and gas sector can be traced back to energy policy changes beginning in the mid 1980s. Canada emerged from the disastrous experiment that was the National Energy Program to embrace a new approach to energy policy. The hallmarks of Canada's energy policy have been open markets, free trade and competitive and stable fiscal and regulatory regimes and, more recently, corporate tax reductions.

Canada's energy policy has proven very durable in maintaining Canada's competitiveness. Canada's Energy Advantage is recognized as being its discipline in providing a stable and globally competitive investment environment. While Canada's oil and gas resources are abundant, they are also costly and difficult to develop. Good policy is critical.

Canada's reputation has taken a number of hits through a recent period of fiscal and policy uncertainty and change at both the federal and provincial level. In addition, our collective success has accelerated challenges, such as inadequate infrastructure and human resources, escalating costs and a higher Canadian dollar. On this last point, it is important to note that oil and gas is like any other exporting industry; the higher the dollar goes, the lower the price we see in Canadian dollars. As one of the attached slides shows, almost all of the up-tick in oil prices has been eaten up by the rising exchange rate. And natural gas is even worse with the double hit of lower natural gas prices and the higher exchange rate.

However, despite the above challenges, Canada's fundamental policy approach remains strong and relevant and should be retained.

Setting Priorities at Home

CAPP is of the view that the greatest barriers to encouraging outbound and inbound foreign direct investment are not distinct from those holding back growth, innovation and excellence domestically. Sound policies at home make Canada an attractive place for all to invest and create an environment that encourages global ambitions and expansion.

In the remainder of this submission, we touch on the areas we believe the government should focus its efforts to ensure Canada's future competitiveness and productivity.

People. Perhaps the greatest bottleneck to progress for the sector and economy generally is the labour supply challenge. Across the economy, employers are having difficulty filling positions in a timely fashion. There is no magic bullet to solving the labour crunch and CAPP acknowledges the attention and resources being directed to this file by the federal and provincial governments. While the challenge in Western Canada has been most pronounced, it is clear that this is a national and long-term public policy issue.

Recommendation: In addition to the initiatives currently underway, CAPP urges governments to focus resources on areas of high potential growth and demand, such as oil and gas. That means long-term funding commitments from governments and post-secondary institutions for relevant university programs and trades.

Infrastructure. While human resources and infrastructure underpin competitiveness and productivity, they are often overlooked until they are lacking. Canada's infrastructure, including its energy infrastructure, is not keeping pace with demand and is in need of renewal. We acknowledge the federal government's focus on this challenge, as evidenced by growing expenditures in support of such projects as the Pacific and Atlantic Gateways and Highway 63 to Fort McMurray.

Recommendation: CAPP encourages the federal government to continue to focus increased infrastructure spending on areas of national and strategic significance, including energy. This will need to take into account infrastructure required to help Canadians and industry meet pressing environmental challenges, such as climate change.

Regulatory Efficiency. One of the most unnecessary and unfortunate impediments to investment and growth is the inefficiency of Canada's approach to regulation. Overlapping requirements between levels of government and poor coordination create unnecessary cost and delay and serve no public purpose. Canada's commitment to the environment, health and safety is a competitive strength and industry's frustration should not be taken as a call for a relaxation of standards. We simply want sensible and efficient approaches that allow more of our energy and resources to be devoted to improving performance and protecting the public interest. The federal government is

moving in the right direction with the Major Project Management Office and there is hope that progress can be made in addressing regulatory tangle in the North.

Recommendation: A small but significant step would be a commitment to set timelines for reviews and measure and report on performance. This would allow for comparisons with our major competitors and ensure Canadian companies face regulatory processes that are comparably efficient.

Research and Innovation. R&I play a critical role in the maintenance of a vibrant and competitive economy. The upstream oil and gas sector gets very little recognition for its investment in R&I, largely as a result of the treatment of data. As conventional resources have declined, the industry has focused on developing new approaches and technologies to increase recovery rates and develop resources unconventional in their nature (oil sands, tight gas, coal bed methane, ultra deep reservoirs, and shale gas) and location (offshore and North of 60). The industry would be in rapid decline but for massive investments made in R&I. While the oil and gas industry does not believe that governments should be in the business of picking winners and losers, we also believe that we should not be blind to our strengths and opportunities. The Council of Canadian Academics noted in a recent report that 6 of the top 10 areas of R&I strength for the country were energy related, with oil sands being at the very top. Focusing and building on our strengths should be a guiding principle of Canada's approach.

The upstream oil and gas industry has consistently highlighted the important role R&I must play in making real progress on climate change. This commitment to R&I is based on experience and proven results in addressing other environmental challenges, such as reducing water usage and environmental footprint. It is for this reason that CAPP has voiced strong concern regarding the phase out of the Technology Fund under the federal government's climate change plan.

Recommendation: The upstream oil and gas industry is committed to working with the federal government to enhance and leverage Canada's energy R&I strengths. Building this partnership requires, as a preliminary matter, a clear and common understanding of what constitutes R&I in the energy context so that contributions are fairly and accurately measured and new programs are appropriate to the sector.

Domestic Policies and Global Realities. In developing policies, Canada must always remain conscious of what its competitors are doing and the impact on our competitiveness. This is not a call for Canada to follow a race to the bottom of public policy or to never lead by example. Rather, we must carefully consider options and always bear in mind economic consequences. A recent example would be proposed changes to the rules governing foreign interest deductibility. The concern is that this puts Canada out of step with our major trading partners and, as a result, places at a competitive disadvantage.

With respect to climate change, Canada must continue to work to achieve a global consensus on ways forward. Again, this does not mean doing nothing. The federal government and Alberta have already stepped ahead of our major trading partners with significant new requirements and costs for industry. Industry supports these actions. If Canada moves further without some assurance that the world will follow, we will undercut our economy in exchange for no appreciable global impact on the problem. Canada can lead, but it must have some measure of comfort that others will follow.

Recommendation: CAPP recommends that the federal government defer implementation of the proposed new rules governing foreign interest deductibility. In addition, we recommend that the government undertake a detailed competitiveness analysis before moving forward with any significant policy initiative to ensure we remain in step with our major competitors.

Canada's upstream oil and gas industry understands that the most important issues facing this country do not rest solely at the feet of governments. Industry has a responsibility to work in partnership with governments and stakeholders to ensure Canadians continue to enjoy a strong economy and a healthy environment. With this in mind, CAPP would welcome any recommendations that Panel may have regarding the role industry can play in sharpening Canada's competitive edge.

We appreciate the dedication and hard work of the Panel members and staff and wish you all the best as you consider input and begin formulation of recommendations. Should the Panel wish to discuss any matter raised in this submission or any other you deem relevant to your mandate, CAPP would be more than pleased to do so. For the information of the Panel, we have also attached slides illustrating growth experienced by the sector, its economic contribution and some of the challenges it is facing.

Sincerely,

A handwritten signature in black ink, appearing to read 'P. Alvarez', is written over a yellow dotted grid background. The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Pierre Alvarez
President
Attachment