

Assessing Canada's Energy Sector Competitiveness: Collected Essays

Elmira Aliakbari, Contributing Editor

The energy sector, in particular the oil and gas industry, is critically important to Canada's economy. It accounts for about 8 percent of Canada's GDP, as well as for a significant share of the tax revenue collected by governments. The oil and gas sector is particularly important to the provincial economies of Alberta and Saskatchewan; it contributes to 30 percent of Alberta's GDP and slightly more than 23 percent of Saskatchewan's GDP.

However, despite its importance, this sector has faced several challenges in recent years largely due to poor government policies at both the provincial and federal levels. Pipeline projects have faced delays or have been cancelled mainly due to political opposition and regulatory and environmental impediments. The lack of adequate pipeline capacity for oil exports has been an ongoing problem for the sector, greatly reducing the price that Canadian oil producers receive for their products. As such, pipeline constraints have been a major factor undermining the competitiveness of energy producers in Western Canada relative to those elsewhere in North America.

In addition to pipeline constraints, increased taxation and regulatory requirements in recent years have exacerbated the issues facing the oil and gas industry. Canada's recent policy and regulatory changes have been particularly damaging given that deregulation and sweeping tax reforms in the United States have significantly improved the business environment in that country, particularly for the oil and gas sector.

This series of short essays looks into the competitiveness concerns for Canada's oil and gas industry in the wake of recent tax reforms and deregulation in the United States.

In the first chapter, Steven Globerman and Joel Emes explain their concerns about the competitiveness of Canada's energy sector by documenting the dramatic deterioration of the investment environment surrounding the oil and gas industry in recent years. They show that the percentage of oil and gas capital investment in Canada as a share of total capital investment has plummeted, from 28 percent in 2014 to 13.9 percent in 2018. In addition, they demonstrate that between 2016 and 2018, the United States has enjoyed a 41 percent increase in investment in its upstream oil and gas sector (essentially, exploration and production) compared to only a 15 percent increase in Canada.

In the second chapter, Robert Murphy, Ashley Stedman, and Elmira Aliakbari compare the regulatory environment in the US and Canada in which the oil and gas sector operates. They review the recent policy and regulatory changes im-

plemented in both countries. Specifically, they emphasize that Canada's federal government and many key provincial governments have significantly increased regulatory requirements for the sector including extensive reforms included in Bill C-69 and Bill C-48, a provincial cap on greenhouse gas emissions, and new regulations on methane emissions, among others. They explain that in contrast to Canada, the United States has taken a markedly different approach to promoting energy development. It has rescinded or scaled back several regulations including controls on power-plant emissions and it has withdrawn from the Paris climate agreement.

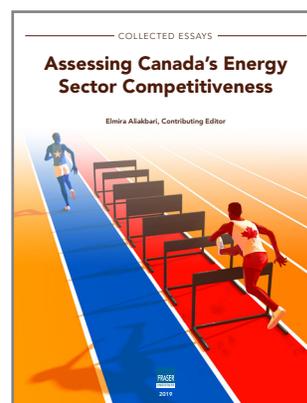
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In the third chapter, Philip Bazel and Jack Mintz analyze Canadian oil and gas tax competitiveness in the wake of recent US tax reforms—and Canada's response to those reforms. They find that Saskatchewan has the highest taxes on new oil and gas investment among all major energy-producing jurisdictions in North America, which is hurting the province's competitiveness. They also find that British Columbia fares poorly compared to most US states and provinces on new natural gas investments; British Columbia's effective tax rate is behind only that of Saskatchewan within Canada, and is fifth-highest among 18 jurisdictions in North America.

Finally, in chapter 4, Ashley Stedman and Elmira Aliakbari summarize the results of the latest *Fraser Institute Global*

Petroleum Survey to help identify the reasons behind declining investor perceptions of Canada's energy sector. In their responses to the survey, oil and gas investors express great apprehension about Canada's policy environment and regulatory processes. Specifically, they point to the high cost of regulatory compliance, uncertainty concerning environmental regulations, and regulatory enforcement and duplication as major areas of concern in many Canadian jurisdictions particularly when compared to US states. Investors also noted their increasing concern over taxation in Saskatchewan, Alberta, and British Columbia when compared to several US states.

Clearly, Canada's energy sector is reeling from a combination of insufficient pipeline capacity and a barrage of new or expanded regulations and taxes. Building pipelines and easing the burdens of taxes and excessive oil and gas regulations should be a priority for governments at both the federal and provincial levels to help restore the sector's competitiveness.



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