Lifting The Moratorium:

The First Step To Exploring British Columbia's Offshore Oil & Gas Potential

A submission to the public review panel on the BC offshore oil and gas moratorium from the
Canadian Taxpayers Federation,
Prepared under contract by
Chris m. Campbell, PHD.

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Canadian Taxpayers Federation
British Columbia Division
604-1207 Douglas St
Victoria, BC V8W 2E7

250-388-3660 (T)
250-388-3680 (F)
www.taxpayer.com

Removing the Moratorium – the first step to making offshore oil and gas an option for British Columbia

In the late 1980s, the provincial and federal governments began to work on a Pacific Accord to evaluate British Columbia's potential offshore resources. Since then the provincial and federal governments have received several technical reviews, and scientific reports on offshore oil and gas exploration, but both the federal and provincial moratoriums have remained in effect. Recently, the federal government tasked a panel of experts to conduct public hearings, review written submissions and to determine:

- *Whether or not the federal moratorium should be lifted for Queen Charlotte Area and;*
- *The broad environmental and socio-economic impacts of lifting the moratorium.*

The panel must provide the federal Natural Resources Minister with a clear direction that responsible offshore exploration is possible, desirable and safe in British Columbia.

The recommendation to lift the moratorium

The moratorium on offshore oil and gas exploration on the Pacific Coast needs to be lifted. There is no reason to impose an activity-specific moratorium in addition to the already applicable Environmental Assessment regulation, and probable specific industry regulation. There is no reason to have such a moratorium for only one coast. The potential offshore resources are critical to the future development and success of British Columbia's economy. Currently, the moratorium acts to prohibit exploration activity and limits public understanding of the resource potential. In fact, the moratorium has stifled Pacific Ocean science and British Columbia's ocean technology industry.

The reasons why government should remove this arbitrary roadblock

The offshore is a public resource

At present, the precise quantity of offshore oil and gas is unknown. Exploratory activity including modern seismic and drilling have been prohibited while the moratorium is in effect. However, there are number of positive indications that suggest significant offshore resources, such as: regional geology, initial drilling conducted in the 1960's, a large number of natural oil and gas seeps as well as research performed by the Geological Survey of Canada.

An estimate of a resource with a potential value of $100 billion presents a potentially significant opportunity for the people of British Columbia and Canada. If industry is allowed to explore and eventually develop these resources, it will provide employment, business opportunities for coastal British Columbia and its marine industry, as well as "resource-rents" to government. This public resource is an important revenue stream to fund governments' core services, to the benefit of Canadian taxpayers. It should be noted that the onshore gas and oil industry in NorthEast British Columbia is already the largest single natural resource revenue source for the government. (http://www.em.gov.bc.ca/ExternalRelations/Forum_newsletter_2003-02-19.pdf)

The benefits are real

While sustainable economic development in Newfoundland and Labrador has been challenging, the three offshore projects have stimulated economic growth and business opportunities. There have also been enormous benefits to Canada from royalties and in project shareholder revenues.

In Newfoundland and Labrador, wages and employee benefits paid for production and production services has passed $200 million per year and combined exploration, development and production employment has exceeded 3,000 people since 1999. (Dept of Finance, Gov. of NL, in Community Resource Services, 2003)[1] The Hibernia project is a multiwell production platform producing 220,000 barrels of oil daily with a crew of about 200 on board. The Terra Nova project is a more recent project that uses a ship-shape production vessel that has drilled production wells and produces and stores oil that is transferred to refineries by shuttle tankers.

In recent years, real gross domestic product in Newfoundland and Labrador has been $2-3 billion higher because of offshore oil activity and the Province's annual percentage growth in GDP led the country for the last five years because direct and indirect impacts account for 19% of GDP. Despite expenditures to outside business and suppliers, aggregate personal income is $700 million higher due to offshore oil and gas – that is a total of 6% of personal income. Total direct and induced employment was increased by 14,000 and the Province's unemployment rate was 2.4% lower than it would have been without oil. (Community Resource Services, 2003)

The cities of St John's and Mount Pearl host many of the operating and service companies working in the Newfoundland and Labrador offshore. They earn 6-7% of their municipal taxes from the industry. (Community Resource Services, 2003)

Under the Hibernia development project, much of the construction work was to occur in Newfoundland. The construction of the concrete gravity-based structure and the fabrication of the well-head module and other components were located about 120 km west of the provincial capital, St. John's. Other modules components were built in Italy and South Korea, and then shipped and assembled in Newfoundland. Much of the management and engineering activity occurred in St. John's. The construction project exceeded all of Hibernia Management and Development Corporation's benefits commitments. The expenditures totaled over $6 billion, with 75% of them in Canada, and over 45% in Newfoundland. There were about 26,000 person-years of employment with, at peak, 6,600 people working in the province. Almost 60% of all employment, including 1.8 million hours of design work, went to Newfoundland residents, and Newfoundland companies received over 6,000 purchase orders. (Shrimpton 2001)[2]

An assessment of the benefits resulting from Hibernia's first year of production found that

[1] Socio-economic benefits from petroleum industry activity in Newfoundland and Labrador – Report for Petroleum Research Atlantic Canada, Nov 2003.

[2] Benefiting Communities: Lessons from Around the Atlantic - presented at the SPE International Conference on Health, Safety and Environment in Oil and Gas Exploration and Production held in Kuala Lumpur, Malaysia, 20ˆ22 March 2002.

64% of the total expenditures of $299 million were made in Newfoundland. There were 900-1,000 persons working, of whom 83% were Newfoundlanders. In addition, 189 Newfoundland companies received purchase orders from the Hibernia. (Shrimpton 2001)

Newfoundland's second offshore development, Petro Canada's Terra Nova field, started production in 2002 and directly employs 985 people with 84% Newfoundland and Labrador residents and a further 10% other Canadians. Husky's White Rose project is still in the development phase. At the start of design and construction, it employed 1020 people; but only 47% were Newfoundland and Labrador residents and a further 9% other Canadians, due to extensive work building the ship hull for the production system in Korea. A year later, Newfoundland showed an overall increase of 1933 (to 4843) employed directly, primarily due to White Rose construction in the Province. Of the increase, 93% are Newfoundland residents or other Canadians. Canadian content of White Rose increased from 47% at Dec 2002 to 81% at Dec. 2003. (Canada Newfoundland Offshore Petroleum Board 2002 and 2003 reports)[3].

This would suggest a total direct and indirect Newfoundland and Labrador employment of roughly 14,500. The hull of the SEA ROSE arrived in Newfoundland for outfit in March 2004. Local development work and the operational phase of White Rose will likely increase the Canadian and local content further. The White Rose project will be Newfoundland's third offshore development. Like Terra Nova, it will use a Floating, Production, Storage and Offloading vessel and shuttle tankers.

The impacts are more noticeable than the statistics, in the development of new businesses, the expansion of existing businesses, the development of new partnerships and even the maintenance of businesses that would likely have failed without the new opportunity. The City of St John's identifies itself as an Ocean Centre of Excellence based on the advancement of ocean technology, marine operations and fabrication businesses and the strengthening of research capacity at Memorial University and NRC's Institute of Ocean Technology. The Oceans Advance cluster is serving regional, national and international opportunities – new export opportunities add to the economic impacts discussed above.

The Marystown Shipyard, government owned and serving the offshore fishing industry, faced closure after the cod fishery collapsed. It is now owned by international fabricator Kiewit Offshore Services who are employing the facility to fabricate modules for the White Rose development and for the outfit of the SEA ROSE, North America's second Floating, Production, Storage, and Offloading (FPSO) system.

Stratos Global, now a US headquartered Newfoundland based satellite and radio communications company, has expanded service to the petroleum industry worldwide and extended operations to military, shipping, air, resource and other sectors. Oceanic Consulting, a vessel modeling and testing company, has evaluated designs for an FPSO for West Africa, supply vessels for Kazakhstan, and Gulf of Mexico production platforms – they have also tested vessel designs for America's Cup yachts, tugs and patrol vessels! Newdock moved from a joint venture service capability for Newfoundland developments to

[3] http://www.cnopb.nfnet.com/env/rpts.htm

the manufacturing of subsea assemblies for SHELL to use in the Gulf of Mexico. Shearwater Geophysical has gone on to provide seismic interpretation for the oil industry in Nova Scotia, Morocco, the China Sea and Black Sea. The list of growing and diversifying companies expands continually. (Community Resource Services, 2003)[4].

In all areas in which the capital- and technology-intensive industry operates, there is a progressive human, business, infrastructure and technology development impact. The recent Environmental Impact Statement produced by the US Minerals Management Service, to inform a decision that is now allowing 2 million hectares of Cook Inlet for lease, forecasts significant extension of existing jobs and addition of new jobs to an already mature offshore oil producing region. There are almost 2,000 directly employed in the existing 45 year-old Cook Inlet oil and gas industry – already close to 10% of local jobs and now a 15% increase in direct employment is expected (MMS, 2003)[5]. Direct employment in Nova Scotia is about 2,000….the list goes on. Worldwide, there are currently 120 floating production systems planned for the next five years.

In summary, Alaska, Australia, California, Gulf of Mexico, Norway, the UK, Eastern Canada and other success stories show that a responsible offshore oil and gas drives change, increases economic activity, creates new tax bases and expands existing tax bases. While, in most areas, there was initial fear of the change, the results have been the direct impacts of:

- service jobs in exploration,
- increased business and work opportunities as commitments to exploration or development grow,
- progressive development of infrastructure that supports the new and existing industry and
- growth in taxes to local and regional governments.

There are also important indirect impacts:

- technical and educational stimulus spills over into other sectors,
- business experience is expanded, opening new market opportunities,
- "big business" stimulates a growth opportunity in remote coastal areas and
- visibility, profile and the continuously developing industry contributes to regional confidence and attitudes.

There is fundamental change – but this offers a rare opportunity to diversify coastal communities.

Newfoundland and Labrador has experienced benefits from about 30 years of exploration and three offshore developments. While it is too early to do more than speculate, that speculation might see something like five comparable Pacific Coast developments in the same time frame.

[4] Socio-economic benefits from petroleum industry activity in Newfoundland and Labrador – Report for Petroleum Research Atlantic Canada, Nov 2003.
[5] http://www.mms.gov/alaska/cproject/Cook_Inlet/FEIS/CI%20EIS%20V1.pdf

The risks are exaggerated

The moratorium decision would have been made some time ago if it was based on science, technology and fact. It is unfortunate that this issue has been allowed to become a political issue and a process that thrives on confusion and draws out both the lack of information, and campaigns of misinformation.

The offshore oil and gas industry operates worldwide with an excellent performance record. More and more of the world supply comes from the offshore without associated disaster or demands that the industry go away.

The recent science reports involved consideration of potential risks. The British Columbia scientific panel report's conclusion was - ***"There is no inherent or fundamental inadequacy of the science or technology, properly applied in an appropriate regulatory framework, to justify retention of the British Columbia moratorium."***[6]

In fact there have been a series of reports[7] since 1986, most recently the Expert Panel convened by the Royal Society of Canada[8], that have arrived at essentially the same conclusion. These studies have considered impacts that "may" occur and have begun the process of assessing whether they are in fact likely to occur, whether their impacts would likely be serious, whether they would be long-lasting and how any risks should be managed.

Why not in British Columbia?

If the scientific reviews indicate that there is nothing so unique about the Pacific Coast to prevent responsible exploration under typical regulations, the moratorium has to be seen as an arbitrary restriction that is impeding due process that could open new resource opportunities for the people of British Columbia. If the industry has worked for 25 years in Eastern Canada with exemplary results and clear support form local business, governments and other marine industry, why should British Columbia not have the opportunity to explore similar potential?

If the Province of British Columbia is participating in the Atlantic Energy Roundtable, to learn from the East Coast regulatory experience, and has committed to a state of the art regulatory regime, why should British Columbia be treated differently? If Canada has Canadian Environmental Assessment Act procedures in place to specifically deal with offshore oil and gas proposals, why would there be a moratorium on these processes for the Pacific Coast?

It would seem that the panel must examine whether maintenance of the moratorium on offshore exploration in British Columbia is justified, given:

- the progressive worldwide experience of the offshore industry,
- the advances in technology and operational approaches by industry,
- the current evolution of the Canadian Environmental Assessment Act
- the experience and analysis of the regulatory regimes, and

[6] http://www.offshoreoilandgas.gov.bc.ca/reports/scientific-review-panel/
[7] http://www.offshoreoilandgas.gov.bc.ca/reports/reports.htm
[8] http//www.rsc.ca

- the fact that the moratorium was maintained in response to concerns over shipping, not exploration and production.

If a coastwide moratorium is not justified on the Atlantic Coast, the panel must conclude that none is justified for the Pacific.

The moratorium is the problem, not the solution

The British Columbia Scientific Panel and the Royal Society Expert panel concluded that ocean science in the Pacific has declined, or at least failed to advance as it has in the Atlantic. It is clear that strategic research by industry, academia and government has built Atlantic centres of excellence that have eclipsed the Pacific Coast ocean science and technology community that served the Arctic and East Coast offshore industry in early days. Virtually the only significant ocean science programmes in the Pacific, in the last 20 years, were those that followed up on the current, weather, salmon, wildlife and geophysical questions raised in the 1984/5 environmental review. Additional energy research funds have not been committed to the West Coast while the moratorium renders follow up as uncertain.

The Royal Society Expert panel concluded that any necessary science could be developed along with exploration planning. There are clear examples of this in most areas of the world in which the offshore operates. Perhaps one striking one is that the 500 years of fishery history on the Newfoundland Grand Banks had never yielded year round time series data on the physical and biological environment. Mobil, in focusing on Hibernia, commissioned research scientists and vessels to do the necessary work on everything from algae to seabirds. Industry will not commission this work if they have a political step like the moratorium in addition to the normal regulatory approvals process.

A number of presenters have described concerns to the panel that reflect a complete lack of knowledge concerning the reality of the modern offshore industry. Others have asked for more information before a decision is made on the moratorium. However, the panel should not use arguments of confusion or lack of information to postpone a decision on the moratorium. In fact, removal of the moratorium will trigger development of regulatory and assessment approaches that will include public information programmes, community consultation and public hearings – these will be the appropriate means to correct and inform.

The public is having difficulty addressing the panel mandate questions concerning impacts. There is no proposed exploration or development scenario for them to assess. How can they provide the panel with their assessment of benefits or negative impacts when most have little idea of the potential scale or scope of industry activity? Removal of the moratorium and establishment of regulatory processes should result in proposals for exploratory activity – these will be specific and trigger realistic reviews of interactions and potential impacts.

In short, the moratorium has resulted in a significant lost opportunity in ocean science and technology, in the British Columbia energy sector, by the coastal communities, and by the governments of British Columbia and Canada. Removal of the moratorium will not in itself ensure that exploration restarts, but it would put the opportunity for British Columbia on a "level playing field".

Conclusion

Responsible offshore oil and gas exploration and development can be important to British Columbia if exploration can be underway by 2010 and there is potential for production before 2020. Assessment of experience with the offshore industry is that it can be appropriately regulated and that any concerns of British Columbians should be addressed under the normal approaches of project planning and assessment.

Removal of the moratorium is an essential first step in creating the certainty, clarity and simplicity that will be needed before there are any proposals for activity.