CRITIQUE OF THE DALE MARSHALL REPORT: 'SHOULD BC LIFT THE OFFSHORE OIL MORATORIUM: A POLICY BRIEF ON THE ECONOMIC LESSONS FROM HIBERNIA'

(Centre for Public Policy Alternatives, n.d.)

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The report is about the 'economic lessons from Hibernia', but ignores the fact that Hibernia was not only a 'make work' project, but also a 'make industry' project. As such, the report should examine how the upstream petroleum industry, in the form of the Hibernia, Terra Nova and White Rose projects and continued exploration, has benefited NL. Recent research (see, for example, CRS 2003) has demonstrated that the benefits are considerable.

Marshall does make use of CRS 1999, which documents the NL benefits that resulted from Hibernia operations. However, he only cites it in the context of (i) the cost implications of waiving taxes, and (ii) the small size of the employment/investment ratio in 1998. The CRS report also indicates that, in 1998, Hibernia operations created 3100 jobs in NL, increased provincial retail sales by 1.9%, and increased the province's population by 5000; however, this goes un-remarked. Similarly, Marshall does not use CRS 1996, which documents the NL benefits that resulted from Hibernia construction activity.

It is indicated (p.6 and footnote 10) that provincial government funds were used to hire Newfoundland engineers who, because of the complexity of the project, were subsequently replaced by foreign ones. In reality, a French team of senior engineers initially led the project, but they were later replaced by a Norwegian-led team, due to a change in preferred construction methods. The Newfoundland engineers worked for and with both. Mentoring and succession planning were explicit components of the provincially-funded program.

Table 1 of the report (p.7), which shows the 'Government contribution to the Hibernia project', is misleading:

- The grant for the operations of the CNOPB was to enable it to regulate the NL offshore petroleum industry as a whole, not just the Hibernia project;
- The government's equity position in Hibernia certainly involved costs; however, it has also led to the government receiving very substantial revenues, which continue to this day; and
- The loan guarantees were just that: an underwriting of certain potential financial risks, none of which have befallen the project. As such, the actual costs to government have been negligible.

Despite the fact that the Terra Nova main structure was built in South Korea (p.8), more that 2000 workers were employed, at peak, in NL. Similarly, notwithstanding what has been ‘suggested’ (p.8) re the White Rose FPSO being entirely constructed in international yards, there are currently 1200 employed in Marystown, working on the White Rose FPSO; about 90% of them are Newfoundlanders.

The government contributions to Hibernia are well documented. It is only obliquely indicated (‘HMDC agreed to employ…’ (p.9)) that these contributions were made in exchange for explicit commitments to deliver Canada and NL benefits, and that all these commitments were met or exceeded.

It is argued (p.9) that the offshore petroleum industry produces few jobs per million dollars invested. This is because it is a capital-intensive industry (like, for example, the fuel cell industry in BC). There is nothing inherently good or bad about this, especially in the case of private-sector expenditures (i.e. 80% of Hibernia expenditures, and 100% of those spent on subsequent fields). There is no local ‘opportunity cost’ for such investment; if the oil companies do not spend it in one jurisdiction, they will either spend it elsewhere or not at all.

Marshall indicates that the use of a workcamp ‘essentially turned construction workers into migrants’ (p.9). Large construction projects have always, and likely always will, primarily use migrant labour. The use of a workcamp is an example of a successful management technique designed to limit the social effects of a project on adjacent communities, and should be applauded.

As with most and perhaps all large-scale projects, there are separate and quite different jobs associated with construction and operations. The first commonly involves more workers, but provides only relatively short-term employment; the operations phase usually sees fewer workers who may be employed for decades. In this context, it does not make much sense to talk about the ‘remaining’ jobs (in operations) after the end of construction (p.9).

Marshall report conclusions:

- *Offshore oil and gas exploration and development is extremely expensive.* TRUE. But, so what? Should jurisdictions reject all expensive activity?

- *Even though no public money was <u>supposed to be</u> used* (emphasis added; no evidence is provided in support of this statement) *for the Hibernia project, in the end governments contributed billions.* TRUE. Hibernia became, because of low oil prices in the late 1980s, an expensive (over a billion dollars in government support, not billion<u>s</u>) and very successful economic development initiative, making work and building an industry.

- *Most of the employment created was temporary construction jobs.* TRUE, IN THE SHORT TERM, as is the case with virtually all infrastructure projects (although these jobs were greatly appreciated by the construction industry, construction workers, and their families and communities, and made a significant contribution to the NL economy). But FALSE, IN THE LONG-TERM, because the new industry is causing major positive change to the NL economy.

- *The total number of local jobs created was low...* FALSE, whether one is talking about Hibernia construction (c 6000 at peak), operations (c 3100 in 1998) or the industry as a whole (13,900 on average, 1999-2002).

- *…especially compared to the same investment in renewable energy or energy efficiency projects.* TRUE, but so what? Government made a large investment to kick-start the industry, but since then there has been massive private-sector investment for which there is no local opportunity cost. The total accumulated capital cost of developing the Hibernia, Terra Nova and White Rose oilfields is over $10 billion, of which government has contributed only something over $1 billion.

- *BC faces unique challenges… not found in the Newfoundland experience.* TRUE. All jurisdictions are unique; the challenge is to identify the prospective benefits and costs, and the means by which they can be managed. BC has both advantages and disadvantages relative to Newfoundland. In the former case, this includes the BC's strong marine and environmental sectors, and its prior involvement in onshore petroleum activity, which should help it in deriving industrial benefits from offshore petroleum activity.

- *There are alternatives… that offer more jobs… and more hope for rural communities for economic development opportunities.* QUESTIONABLE. It seems unlikely that any other industry would be willing to make the scale of investment that the offshore petroleum industry might.

References:

CRS, 1996, 'Socio-economic Impacts of the Hibernia Construction Project'. Report prepared by Community Resource Services Ltd. for the Hibernia Management and Development Company, St. John's, NL.

CRS, 1999, 'Socio-economic Benefits from Hibernia Operations'. Report prepared by Community Resource Services Ltd. for the Hibernia Management and Development Company, St. John's, NL.

CRS, 2003, Socio-economic Benefits from Petroleum Activity in Newfoundland and Labrador'. Report prepared by Community Resource Services Ltd. for Petroleum Research Atlantic Canada, St. John's, NL, and Halifax, NS.