



**METROPOLITAN HALIFAX
CHAMBER OF COMMERCE**

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Oil and Gas Policy Statement

January 2004

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Oil & Gas Policy Statement

The Province of Nova Scotia released its Energy Strategy in 2001. The Metropolitan Halifax Chamber of Commerce provided input to the Province during the development of the Energy Strategy in June 2001. The Chamber has further developed several policy recommendations pertaining to the oil/gas industry in Nova Scotia.

Nova Scotia has enjoyed a decade of petroleum production since it became the host of the first offshore commercial production in Canada in 1992. Approximately 42 million barrels of oil and 1/2 trillion cubic feet of natural gas have been produced from the two developments – the Cohasset Project and the much larger Sable Offshore Energy Project.

Oil and Gas Development has been and continues to be a “good” thing for the province. In the decade between 1990 and 2000, the development that has taken place offshore has made a significant contribution to the economy. For example, in the peak year of 2000 when the Sable offshore gas development began production, the GDP contribution topped at \$1.2 billion. In 1999 during the Maritimes and Northeast pipeline construction period, 11,000 person years of employment resulted.

To put this impact in perspective - in 2000 GDP from natural gas production exceeded the GDP generated by agriculture, fisheries and forestry combined. Future discoveries of oil and gas resources indeed bode well for the economy of the province.

Nova Scotia is ideally situated to export oil and gas to growth markets in Eastern Canada and the Northeastern United States. We are seen as a stable and peaceful location with a well-trained workforce and access to technology. This has made us an attractive area for exploration, albeit still subject to the cyclical nature of the industry and vagaries of world energy markets and local economics.

A cyclic trend will continue at least until the actual size of the offshore resource is better understood. Based on new seismic information in the deepwater and on the Scotian Shelf, current estimates suggest 40 trillion cubic feet (tcf) of natural gas may be discovered offshore Nova Scotia.

Nova Scotia must take a long-term view and remain supportive when industry considers \$50 million exploration decisions and billion dollar development projects.

Nova Scotia is not yet at a stage where local businesses can be sustained on oil and gas work in Atlantic Canada alone. This reality means there is a need to foster and encourage businesses to export their services or technology to other petroleum producing areas of the world. This exporting ability will both buffer firms from down cycles in the local market and also bring revenue and expertise into Nova Scotia.

Local Industrial Opportunities

There is an established core of companies in Nova Scotia with the capability of working in the offshore and there are other companies just getting started. In some cases, there are no Nova Scotia companies that are able to provide the necessary goods, for example in the provision of certain steel piping and highly specialized equipment. Assessing the success and value of local opportunities and benefits has been challenging. The current reporting regulation requires the identification of the Nova Scotia content of the total goods and services used in a particular project – whether there is a Nova Scotia firm capable of providing the goods or not. This gives the impression, which is consistently reported in the media, that Nova Scotia companies are not realizing enough benefit from offshore development. And yet the Gardner Pinfold¹ report states that the actual economic impact from development of Cohasset and Sable far exceeded what

¹ Economic Impact of Offshore Oil & Gas in Nova Scotia – prepared for the NS Department of Finance, November 2002 by Gardner Pinfold Consulting Economists

had been estimated prior to their starts. So, while the approach to measurement may have been appropriate a decade ago, with the experience we have gained, it is time to show what Nova Scotia firms have won compared to what Nova Scotia firms are capable of winning. In this way, the goal becomes two-fold: win more contracts AND increase the capacity of winning more contracts.

A second area of contention around local benefits is whether there should be specific Nova Scotia content targets and rules and, if so, how to enforce these and apply penalties for non-compliance. A tangential sensitive issue is whether, even in the statement of intention to use Nova Scotia companies (and in the absence of specified targets), there should be a mechanism to hold companies accountable. In the review of benefits reporting, these related issues should also be addressed.

Benefits that accrue through jobs are one measure of success. Another measure is whether Nova Scotians have access to an environmentally friendly source of fuel. The Chamber hopes to see significant uptake in the use of Nova Scotian produced gas in the Nova Scotia economy from industrial to residential uses.

Recommendation 1 – A New Reporting Mechanism

The Chamber recommends that the benefits reporting schedules be revised to show Nova Scotia content as a percentage of work that Nova Scotia companies are capable of undertaking, as well as on a total project basis. While making an initial assessment of Nova Scotia capabilities is challenging, it is worthwhile because it will lead to reasonable and achievable expectations, and make transparent the goals to be reached.

Economic Return

The total economic return to the province will be two-fold: in the form of royalties (and/or taxes) and jobs (and/or businesses). While the former flows are prescribed specifically, the latter are left to the section in the Canada-Nova Scotia Offshore Petroleum Resources Accord that stipulates that Nova Scotia industry must be given “full and fair opportunity” to compete for contracts. Even though this definition is imprecise and not quantifiable, the intent is clear: industry in Nova Scotia should be included in development of the offshore.

The Chamber anticipates continued positive growth in many sectors affected by oil and gas development, such as job creation, investment and construction, manufacturing, and offshore supply and logistics. The Chamber knows that the energy industry is an important part of our economy on the East Coast and one that we must nurture and grow. There will be more local opportunities as the projects offshore grow into an industry.

The Sable project totalled more than \$2 billion. The recent report by Gardner-Pinfold for the provincial finance department found that a considerable amount of that total went to Guysborough County. But they also found that over 90% of the value of contracts (\$731 million at the end of 2000) awarded to Nova Scotia companies went to companies and organizations located in the HRM. Halifax is emerging as the Atlantic Canada regional supply base for the East Coast oil and gas industry, work that would otherwise be done in the US or Europe. This is because of our access to the best transportation network in Atlantic Canada, our working harbour and well-educated workforce. The Nova Scotia government should applaud and encourage Halifax in supporting the offshore industry.

Recommendation 2 – Appropriate Economic Return

The Chamber supports the concept of an appropriate economic return, to be comprised of a combination of royalties and/or taxes plus local job and business opportunities derived from the production of our offshore resources. The Chamber recommends that the government encourage the development of job and business opportunities in the province and in HRM. The government must constantly monitor the balance between the two types of returns to ensure that the overall total is sufficient, given the non-renewable nature of the resource.

Regulations and Approvals

The Canada-Nova Scotia Offshore Petroleum Resources Accord of 1986 was negotiated to co-ordinate the regulation, administration and revenue sharing of the offshore, setting aside matters of jurisdiction. The Canada Nova Scotia Offshore Petroleum Board provides for joint management of the offshore through a single window approach. The Accord was intended to streamline the process of regulatory approval by coordinating and administering the various federal and provincial departments with mandates for offshore issues. This has not proven to be the case.

Regulatory approval has become so cumbersome that the Canadian Association of Petroleum Producers (CAPP) states their members must interact with up to 20 government agencies (16 federal and 4 provincial) to do work in the Nova Scotia offshore. In the Chamber's view, the current regulatory burden is dated and inefficient. This leads to increased costs and cycle times for industry. There should be a single window (i.e. simplified and coordinated approach) into the regulatory process with defined approval timelines. The October 2003 "Submission to Atlantic Energy Roundtable II" showed East Coast Projects are taking up to a year and a half or more to gain regulatory approvals while the average in Norway and the UK is closer to a year. Regulatory approval timelines need to be shortened to reflect international standards. The federal government

has recognized this unsustainable situation, and in November 2002 brought together four federal ministers and the governments of Newfoundland & Labrador and Nova Scotia to join with operators and suppliers as the Atlantic Energy Roundtable to address issues concerning industrial opportunities and the regulatory regime. Going into the Roundtable discussions, industry was asking for four specific results from the Roundtable, all of which the Chamber supported: move exploration wells from a comprehensive study requirement to screening under environmental legislation; provide a single window into the regulatory process; provide smart, performance-based regulation; and move to a new model for benefits reporting. The Roundtable most recently met in October 2003, and all stakeholders agreed on a work plan designed to improve the regulatory system and to help achieve increased industrial and economic opportunities. The Chamber expects industry, government and regulators to deliver on that promise.

Environment Canada, whose minister is responsible for the Canadian Environmental Assessment Agency (CEAA) - the primary body overseeing regulation of the environment - was not included as a founding member of the Atlantic Energy Roundtable. This is unacceptable, in light of legislative changes that will see exploration wells drilled offshore Nova Scotia subject to CEAA legislation. The Chamber notes the recent involvement of Environment Canada and CEAA in the Roundtable process, but remains firm that the Minister should be a full participant in the Roundtable.

Recommendation 3- Paramouncy of the Accord in regulatory matters

In the Chamber's view, the current regulatory burden hampers exploration offshore. The paramouncy of the Accord legislation (Sec 4) has been encroached upon by legislation introduced by the federal government. The original intent and spirit of the Accord to streamline the regulatory process should be validated and reaffirmed. The Canada Nova Scotia Offshore Petroleum

Board's authority should be recognized and acknowledged by Canada as paramount in regulating Nova Scotia's offshore.

Recommendation 4 – including the Minister of Environment Canada in the Atlantic Energy Roundtable

The Minister of Environment Canada should be named a full participant in the Atlantic Energy Roundtable.

Conclusion

The Chamber supports the development of Nova Scotia's offshore oil and gas resources. This fledgling industry needs nurturing, sensible regulations, and a user-friendly regulatory process if Nova Scotia's economy is to continue benefiting from the resource offshore. The federal and provincial governments have a responsibility to work together to ensure that Nova Scotia prosperity continues and increases. It is governments that have the ability and authority to make the rules that keep exploration attractive to companies and that make development of the resource a benefit to Nova Scotians. The Chamber urges action wherever the system can be made more responsive, streamlined, customer-friendly and effective. This will help keep Nova Scotia's economy growing at the rapid rate that has been experienced over the last five years.