

Offshore Oil: An Overview of Development in Newfoundland and Labrador

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Introduction

The offshore oil industry in Newfoundland and Labrador is relatively new. Although wells were first drilled in the early 1960s, nothing significant was found until 1979, and several obstacles had to be overcome before first oil could be produced in 1997. Since then, three projects have come online, and each has brought opportunities for the province to gain knowledge and experience, as well as build infrastructure to make future developments easier. The government, however, has hit a wall with plans to develop the fourth project, the Hebron field. Although discovered shortly after Hibernia, Hebron remains undeveloped, and talks between the government and oil companies have recently broken down with little prospect of restarting any time soon. At the heart of these failed talks was the government's insistence that it gain an equity stake in the project as well as increased royalties during times of high oil prices. Oil companies claim that the province is asking for too much, while the province claims that it just wants to ensure its fair share of benefits. The government's demands, however, were not arbitrarily established, but rather based on the specific history of the province. Therefore, to understand the current situation and the government's actions, we must place them within the specific historical context of Newfoundland and Labrador's offshore oil development, which itself must be placed within the context of Canada as a whole and its energy goals.

This paper will explore the current offshore oil development situation in the province of Newfoundland and Labrador by placing it within the historical context of both the province and Canada. It will begin with an overview of Canadian energy policy, how it progressed and with what goals. It will then examine the emergence of the oil industry in Newfoundland and Labrador, the specific projects that have been developed, goals for these projects, and how they were affected by the wider context. It will end with a discussion of the Hebron field and the recent failed negotiations to begin its development.

History/background

Canada

Until 1973, oil policy in Canada focused primarily on development. Bruce Doern states that from 1960 to 1973 the main goal in Canada "was almost exclusively on the expansion and development of the oil industry" (Doern and Toner [1985] in Doern 2003:27). He also states that, "The main concern with oil was to move it and sell it efficiently so as to earn the highest rate of return" (2003:26). Thus, the government was fairly passive when it came to regulating the industry and oil companies were essentially left to themselves (Laxer 1983:2). The government's main role at this time was to facilitate the exploration and development of oil and gas resources (Gattinger 2003:27). It made no effort to restrict which companies developed resources, thus leading to a situation in which development was dominated by US companies. Laxer states that, "In the two decades following the crucial discovery of oil at Leduc, Alberta, in 1947, the subsidiaries of the majors enjoyed their classic period of domination in the Canadian petroleum industry" (1983:2).

Clearly, during these early years there was a mutual desire for energy integration between the US and Canada; both the Canadian government and the US dominated oil companies shared the goal of exporting oil to the US. At the time of the oil crisis in 1973, about half of the oil produced in Canada was being exported to the United States (Laxer 1983:28), which translated into US dominance of Canadian energy resources. Prior to 1973, this did not matter because oil was plentiful and cheap. However, after 1973, problems resulting from the government's previous passive policies became apparent; these policies had created a structure in which oil was developed with little control by the government. Thus, the oil crisis forced the Canadian government to recognize just how little control it had over its own resources.

As was the case throughout the world, the 1973 oil crisis triggered major changes in Canadian energy policy, including a new emphasis on gaining control of its resources and protecting itself from high oil prices. Bruce Doern states that while it was never achieved, one goal of energy policy during the mid-1970s was to decrease exports to the United States. In contrast to its previous passive policies, the government now began implementing a nationalist strategy, including the 1974 establishment of Petro-Canada. Petro Canada, a state-owned oil company, was intended to give the government direct involvement in the industry, and thus the ability to influence oil development in ways that it never could from the outside. The National Energy Program (NEP) was also established in 1980, prompted by the second world oil crisis in 1979, and included goals of Canada's becoming self sufficient in oil production by 1990, gaining 50 percent ownership in its energy resources, and channeling a greater part of oil revenues to the federal government (Rutledge 2005:81). Laxer states that the NEP "was the most ambitious effort ever undertaken by Ottawa to reverse the foreign control of a major industry in favour of Canadian control" (1983:73). The NEP, however, did not last. By the early 1980s the scare over oil prices had subsided and government anxiety diminished. Pressures to dismantle the NEP were building from within Canada as well as the US. In 1984 the Mulroney government was elected and succumbed to these pressures by supporting market-based strategies for managing oil resources. It was within this context that Newfoundland and Labrador's offshore oil industry emerged.

Newfoundland

Although the first exploration wells were drilled off the coast of Newfoundland and Labrador in the early 1960s, they were few and far between. This was partly because throughout the world there was an abundance of oil fields that were cheaper and easier to develop thus oil companies had little incentive to explore off Newfoundland and Labrador's coast. However, when oil prices increased dramatically in 1973, interest in Newfoundland and Labrador rose and exploratory drilling increased.

Unlike past resource developments, which were controlled by outsiders, the province viewed offshore oil as something over which it could have control from the start. In fact, prior to any oil discoveries, the province established regulations stating how it wanted oil resources to be developed if they were found. These regulations were based on the North Sea model, which emphasized maximizing local benefits.

In 1979 the Hibernia oil field was discovered and proved to the world that offshore Newfoundland and Labrador had economic potential. Hibernia's discovery also meant that the province now had to implement its 1977 regulations. This was problematic

because by this time Canada had already established its own goals for oil development (reflected in the NEP), which emphasized building the federal treasury with oil revenues. Crosbie states that, “At the time Canada believed that administration and ultimate decision making authority regarding offshore mineral resources must remain essentially under federal administration in view of the many factors and responsibilities which they thought were involved of a national character including uniform and efficient management, standardized policies of resource management, optimum conservation practices, control of export arrangements, establishment of Canadian criminal and civil law in the offshore, and negotiations and agreements with foreign states” (Crosbie 2003: 260). The government viewed the development of the Hibernia field as an important part of its national energy strategy (House 56). This clearly contrasted with the goals of the province, however, as Pratt states, “The architects of the N.E.P. believed that oil was too important a commodity to remain under provincial control” (Pratt 182). Due to these differing views, a lengthy battle over jurisdiction ensued and delayed any developments off the coast for many years.

In 1985, after years of conflict and legal battles, the Atlantic Accord was signed. This established a joint management system for Newfoundland and Labrador’s offshore resources, giving the province benefits as if the oil were located on land. This new system was based around a newly established Canada-Newfoundland Offshore Petroleum Board¹, a seven member board, with three members chosen by each level of government and a mutually agreed upon chair. The CNLOPB was given the job of managing offshore resources on behalf of both levels of government.

The Atlantic Accord also established the requirement that a development application be submitted and approved by the CNLOPB before any development took place. This was crucial for assuring local benefits from offshore development. The development application consisted of both a benefits plan and a development plan. The benefits plan required that companies proposing development illustrate how they would ensure local benefits, such as job creation and purchasing. The development plan, on the other hand, explained the proponent’s desired mode of development, such as a Gravity Base System (GBS) or a Floating Production, Storage and Offloading (FPSO) vessel. It also included descriptions of the alternative modes of production available. This ensured that reviewers would understand the company’s plan and what other options were viable so that they could accurately assess the application.

The Projects

With the legal battle settled, development of Newfoundland and Labrador’s offshore could finally begin. However, because of the newness of the industry, problems consistently arose. These problems, while sometimes time consuming and expensive to mitigate, provided learning opportunities, thus giving the province more experience from which to draw when developing future projects. The following section will outline each offshore project, how it was developed, major issues and problems faced, and lessons learned. It will conclude with a discussion of the Hebron project, its history, and the current problems faced in attempts to develop it. Framed around the history of offshore development in the province, the government’s recent actions can be better understood.

¹ This was later changed to the Newfoundland and Labrador Offshore Petroleum Board (CNLOPB), which will be used in the rest of this paper.

Hibernia

Although discovered in 1979, development of the Hibernia oil field could not begin until the jurisdictional dispute with the federal government was settled. This dispute, however, was only the first obstacle to development, and it took many years beyond 1985 to hammer out an agreement that was amenable to all parties involved.

One immediate problem affecting development was that by 1985 oil prices had declined significantly, which meant that companies would profit less by developing the Hibernia field. This, in addition to the high costs associated with spearheading development in the province, acted as a serious deterrent to companies². Mobil claimed that its involvement would not be worthwhile unless oil prices increased to at least \$22 per barrel, and this was unlikely anytime soon. However, because the government was so eager to move forward with developing its offshore resource, it was willing to offer help by providing extra incentives so that oil companies would get involved.

By 1990, an agreement between the government and the oil companies had been reached and development could finally begin. The government agreed to give the developers \$1 billion in grants and \$1.7 billion in loan guarantees in order to make the \$5.2 billion dollar proposed project go forward. The oil companies agreed to proceed with development using a gravity based system (GBS) which, while significantly more expensive than other modes of development, would lead to more jobs in the province. Job creation had been a priority for the government with this project because unemployment rates were very high. Not only would jobs be created by building a GBS, but they would also be created by constructing the shipyard needed to build the GBS. Additional jobs would arise from any future construction contracts won by the shipyard, both related and unrelated to the offshore industry. Despite these benefits, however, there were still concerns that the government had been too generous in this agreement and that, if oil prices did not rise, the whole project would be uneconomical.

Once the project began, problems arose that again prolonged the process of development. In 1992, Gulf Oil withdrew its 25% stake in the project, forcing the remaining companies to slow work in order to save money while they looked for a new partner. This meant not only cutting daily expenditures in half, from \$3 to \$1.5 million, but laying off workers as well. After a year, when no replacement had been found, the federal government agreed to take 8.5% of the project in order to ensure that it moved forward. The rest of Gulf's portion was taken by a new company, Murphy Oil (6.5%), and the remaining partners. However, the slowdown that Gulf's withdrawal had caused meant that project completion would be delayed by at least a year, with estimated first production now in 1997. This delay led to further job losses as developers looked to save time by moving some of the contract work out of the province.

Further delays in the project took place when the company encountered engineering problems just before the construction phase was supposed to begin. These problems were likely the result of the designer's inexperience with GBSs. The province had been so intent on maximizing local benefits, that it had chosen an inexperienced local company over an experienced Norwegian company. GBSs are extremely complicated, and most of those in existence were built by the Norwegians for use in their offshore industry. Failure to bring in their expertise was a lesson the province learned too late.

² This was because there was no current industry in the province and so there was no infrastructure in place.

The problems encountered not only further delayed the project, but also added to the ever increasing price tag. By 1993, the oil companies were so frustrated with the constant delays and increasing costs that they threatened to pull out of the project completely. Ottawa, however, agreed to let them bring in Norwegian experts, after which point construction ran smoothly, on time, and on budget (Hibernia 1995: par 25). After all of its setbacks, Hibernia finally began production in 1997.

Because the oil companies had agreed to build a GBS, which would provide the province with much needed jobs, they were able to bargain for a relatively low royalty rate, meaning that once the construction phase was finished, the field would not prove very lucrative to the province. The original royalty agreement was that the province would increase its take by 1% every 18 months until 2004, when it would receive 5%. While this arrangement appeared not to matter at first because world oil prices were low, it became an issue years later when oil prices increased and companies wanted to increase production. Because royalties had never been tied to production levels, the province had nothing to gain by allowing an increase in production. In fact, the government would lose money because existing oil would be produced more quickly. However, with oil prices at about \$30 per barrel and oil companies desperately wanting to increase their profits, the two sides finally reached a deal in which royalties would be tied to production levels. This situation taught the province the importance of establishing a favourable royalty regime.

Although everything did not go according to plan with the Hibernia development, the government's goals were met: The Hibernia project had created much needed jobs in the province by using a GBS, and it had built up provincial infrastructure so that future oil fields could be developed more cheaply, easily and without government assistance.

Terra Nova

In December 1995, Petro Canada formally announced that it would submit a development application for the Terra Nova oil field. With Hibernia construction winding down, the government was eager to move forward with the next project. While Hibernia developers had waited until they reached an agreement with the government before designing the project, thus prolonging the start of development, Terra Nova developers wanted to begin construction right away. In fact, they were so confident that an agreement would be reached with the government that they worked on this agreement and a project design concurrently. Thus, as soon as the government approved the development application in 1998, construction was ready to begin.

The original purpose of using a GBS to develop the Hibernia field had been to create jobs for the people of the province and infrastructure to promote future development. Although the cost of the project was high, with government help it had been deemed worthwhile by all parties. The Terra Nova project, on the other hand, would not receive the same kind of assistance. In fact, the government was adamant that the Terra Nova project would proceed on its own accord or not at all (Tobin 1996: par 6). Therefore, developers chose to use an FPSO because it would be significantly cheaper than a GBS and take less time to build. The original budget for the entire project was expected to be approximately \$2 billion, about one third of the final Hibernia budget.

The drawback to using an FPSO, however, was that most of the construction work could not be done within the country, and the \$200 million contract to design and build

the FPSO's steel hull was given to a Korean company. While the province lost the bulk of the construction work because of this, Petro-Canada planned to use the Bull Arm shipyard to build 70% of the topsides for the FPSO. This, however, was only a fraction of the total amount of work created by the project.

Although the province did not benefit from the same level of employment as from the Hibernia project, because the government had refused to give the project assistance, it was able to take advantage of a more lucrative royalty arrangement. In fact, it was expected that at current (1996) oil prices, the Terra Nova project would generate twice as much in royalties as Hibernia (Tobin 1996: par 12).

Like Hibernia, the Terra Nova project was the first of its kind off the coast of Newfoundland and Labrador, and it encountered unexpected delays and higher than estimated costs. Some of these problems could be expected as part of the learning process. Thus, once encountered, they would not be faced again. For example, the original project design included using trenching machines to dig the ocean floor so that flow lines could be laid down. However, because this had never been done before in offshore Newfoundland and Labrador, no one anticipated that boulders and compact sand would prevent these machines from digging. Thus, plans had to be altered so that the lines could be laid down first and then covered with sand. This added to the total cost and construction time of the project. Issues such as these illustrated the importance of experience; with each successive project, these types of problems should decrease and development should proceed more smoothly as both the government and developers learned what to expect off the province's coast. Korean builders were responsible for some of the other problems that prolonged development, including problems with the fire extinguishing, seawater cooling, heating, and air conditioning systems. All of these had to be fixed prior to the FPSO beginning production. These problems contributed to the project's being a full year late and close to a billion dollars over budget. They also placed the province in a difficult spot financially because it had been expecting royalty payments a full year earlier. Finally, the added costs and time did not set a good example for future developers interested in investing in the province.

The Terra Nova FPSO has also had a recurring theme of mechanical problems since production began in 2002, which, in several instances, resulted in production stopping. In fact, between 2004 and 2006, production was stopped five times, for up to 26 days at a time, on account of mechanical problems (Cattaneo 2006: par 3). On one of these occasions, in November 2004, malfunctions in both the oil and water separator and the chemical injection system, resulted in 170,000 litres of oil spilling into the ocean. Production was stopped for about three weeks while the incident was investigated by the CNLOPB. Charges were finally laid in July, and Petro-Canada received its fine of \$290,000 at the beginning of May, the biggest fine ever given for a pollution case in Atlantic Canada. This spill not only revealed the vulnerability of the offshore environment to oil pollution, but the vulnerability of the FPSO as well.

Another major set of mechanical problems began in early 2006. In March, production decreased due to a gearbox malfunction, then stopped completely in May when another gearbox malfunctioned. This shutdown was a month earlier than a maintenance shutdown that had been scheduled for the summer. Production had originally been expected to resume in mid-September, but was delayed until the end of October. Thus, with production stopped longer than anticipated, the government stood to

lose a great deal in royalties. In fact, a recent estimate by the government cited a loss of royalties worth approximately \$100 million dollars (CBC 2006: par 6), which was at a time when the government had been expecting a surplus (CBC 2006: par 2).

One of the lessons learned during the Terra Nova development was that, despite the requirement that companies submit a benefits plan, once development begins, the government has little control over whether these plans are followed or not. This became evident in 1998, after development had begun, when Petro-Canada announced that it would not move workers from England to Newfoundland and Labrador, something it had agreed to as a condition for the CNLOPB approving its development plan. Petro-Canada cited time and money as reasons for its non-compliance. While the CNLOPB accepted the company's actions, it claimed that it had little choice in the matter: the companies carrying out the development were private, and once approval was given, there was nothing the government could do because the conditions were not legally binding. It would also hurt the province's reputation if the project were delayed any longer (CBC 1998: par 15). However, this case forced the province to think about the purpose of the benefits plans and how it could best maximize local benefits from future offshore development.

The second offshore oil project in the province ran into some of the same difficulties as the first, but many of its own as well. Most importantly, perhaps, was that after two major projects had started in the province, a development climate was being established. This climate was something to which potential future developers could look to get an idea of how development might take place. After both Hibernia and Terra Nova had reached the stage of production, developers saw two projects that were both late and over budget, something that influenced their decisions with regard to the development of the third field.

White Rose

When it came time to develop the third oil field, developers (Husky and Petro-Canada) had two past projects from which to learn; oil companies could look to past projects to help them determine what to expect if they chose to develop in Newfoundland and Labrador. Hibernia and Terra Nova had both run late and over budget, thus worrying the potential developers that this would happen to the White Rose project as well. Companies also worried that if oil prices declined, the project would not make a profit. Despite these concerns, Husky eventually decided to move forward with the project.

In January 2001, several months later than expected, a development application for the White Rose project was submitted to the CNLOPB. Developers had been concerned about the economics of the project and had used the extra time to re-assess their budget in order to make a final decision about whether or not to proceed. In the end they decided to go ahead, but, in order to ensure a degree of certainty in their budget, chose to use a fixed price system: if contractors went over budget, they would be responsible for covering the extra cost ('Husky approves development' 2002: par 12). The development application also included the use of another FPSO, a cheaper alternative to a GBS. The decision to use an FPSO instead of a GBS was a controversial one. A group started by St. John's Mayor Andy Wells had been pushing oil companies to build another GBS, claiming that it would cost the same as an FPSO, create more jobs, and could be used to develop natural gas in the field as well (CBC 2000: par 4). Thus, he

thought that companies should be forced to build one. Others, however, argued that if oil companies did not want to build a GBS, efforts should be put into ensuring that as much of the topsides work as possible would be completed within the province. Husky, however, maintained its decision, claiming that an FPSO would, in fact, be cheaper, as well as lead to production a year earlier (CBC 2001: par 1).

After the development application was submitted, a Public Review Commissioner was assigned to set up the public review period in which individuals and groups could provide both written and oral comments about the application. Among these comments was again the suggestion that a GBS be used, as well as concerns about the environmental and safety precautions proposed by the company. The Public Review Commissioner reviewed all of the comments submitted, as well as the development application, and in September 2001, provided his report and recommendation about whether the application should be accepted. The report specifically emphasized local benefits, and while it suggested the application's approval, it also included 32 recommendations. Among them was that the benefits plan be redone due to its vagueness (CBC Sept 2001: par 4; Mines and Energy Sept 2001: par 4). The CNLOPB then reviewed the Commissioner's report before giving its final approval. This final approval was granted in December 2001 and was accompanied by 38 conditions, including the requirement that companies spend \$12 million on research and training, and submit regular reports stating the amount of local employment that was planned.

Although using an FPSO meant that most of the construction jobs created from the project could not take place in the province, the government worked out a deal with the oil companies about other work that could be done locally. This included topsides engineering, fabrication, assembly and integration work, which would total approximately 2.8 million person hours (Mines and Energy 2003: par 1). There were also other contracts awarded to local companies, thus producing even more work, for instance at the Bull Arm site (Mines and Energy 2003: par 2). In total, the work provided within the province from the White Rose project was expected to include much more project management and engineering, as well as the topsides work, than from previous projects. This, according to the government, was because local companies were gaining knowledge and experience with each project, and thus could take on more of the work (Mines and Energy 2001: par 8). However, despite the work that was promised to take place within the province, it was only a fraction of the total construction work for the entire project, about 33% of total project expenditures (MacDonald 2001: par 17). Thus, the government and the CNLOPB still received criticism for not ensuring that more work was done in the province (CBC 2002: par 2).

Husky's original hesitation to become involved in the White Rose project illustrates how the investment climate can influence a company's decisions. The investment climate can include both financial and political factors that can prove either encouraging or discouraging to a company. Past projects can suggest this climate, as can regulations, taxes and royalties. The more concrete information a company has prior to an investment decision, the better able it is to decide whether or not to become involved. This is explained by the Newfoundland Ocean Industries Association (NOIA):

Fiscal regimes, industrial benefits expectations and regulatory burden are important factors in attracting investment in petroleum exploration and

development, which are the drivers of industry sustainability over the long term. As a result, the design and implementation of the regulatory framework is of paramount importance. The rules must be clear, well-communicated and consistently applied over the term of any proposed investment. Further, the process must be effective, efficient and expedient, and the complete package must be competitive in the global industry (NOIA 2006).

Thus, after the offshore industry began in the province, the government moved toward a generic royalty regime. This was established in 1996 and, since the Hibernia and Terra Nova agreements had already been negotiated, would apply to all projects beginning with White Rose. The generic regime was intended to be both fair to the province and encouraging to investors. It would not only save time and money that would have been spent on negotiating a specific deal, but would also give oil companies a degree of financial security; oil companies would know what they would be expected to pay in royalties, which would help them evaluate their financial situation prior to getting involved.

Because production at the White Rose field has only recently begun, it is hard to know if it will run smoothly, or if it will encounter problems like Terra Nova. However, with three oil fields now in production, the province has learned some valuable lessons. One of these lessons is that past projects, including the agreements with government, regulations, and the way development unfolds, create an investment climate that influences whether or not oil companies will invest in future projects. This, as well as the lessons learned regarding provincial benefits, played a role in the unfolding of the Hebron development.

Hebron

Although the Hebron oil field has yet to be developed, its history dates back to shortly after the discovery of Hibernia. It begins with the field's discovery in 1981 and includes rising and falling hopes of development that continue to the present. The first wells drilled in the Hebron field estimated that it held approximately 195 million barrels of oil. However, subsequent wells have revealed several times this much. The most recent estimate, in June 2006, was 731 million barrels, thus making it the second largest field in the province after Hibernia (Lono 2006: 6). Clearly, this is a significant amount of oil that both the province and the oil companies would like to develop.

The Hebron field, however, is different from other fields in the province in that its oil is of a heavier quality, meaning that it is not only harder (thus more expensive) to extract, but also harder (and more expensive) to refine. Additionally, this oil would sell for less than the lighter oil found in other fields. Thus, if oil companies had been worried in the past about making a profit from a new project in Newfoundland and Labrador, they were even more so when faced with deciding whether they should develop the Hebron field.

Despite the drawbacks, development talks between potential partners began as early as 1991, and partner Norcen Energy announced that if plans moved forward, production could begin as early as 1995 (Slocum 191: par 2). However, despite this hope, the Hebron field proved too expensive to develop at the time and was put aside. In 1996, Chevron bought Norcen's share in the project and soon after (1997) expressed a renewed

interest in developing it. Drilling began in order to gather further information about the field, which led to the March 2000 decision that Chevron would lead a project that might lead to the development of the field. This project began with viability studies that would assess whether or not Hebron could be a stand-alone project. After two years, however, the project was again deemed too expensive and shelved. Hopes were renewed yet again in April 2005, when the partners signed an operating agreement which, coupled with higher oil prices, increased the viability of developing the field. Negotiations began between the government and the oil companies and prospects looked good that an agreement would be reached and development would finally begin. However, in early April, 2006, it was announced that no agreement could be reached and that Chevron had disbanded its Newfoundland and Labrador team. This final act by Chevron was taken as a serious sign of the company's withdrawal, since it claimed that it would take two years to reinstate the team and get the project moving again (Cattaneo and Harding 2006 b: par 16).

The oil companies claimed that negotiations with the government had broken down because of the government's high demands. Premier Danny Williams had insisted that if development were to proceed, oil companies would have to agree to three demands. The first was that the current generic royalty regime be altered to include a tier 3, or super royalty arrangement, which would kick in during times of very high oil prices. This was simply an act to ensure that if oil prices were exceptionally high, the province, and not just the oil companies, would benefit. The second demand, and what seems to have been at the root of the disagreement, was that the government demanded an equity stake in the project. While it had first wanted an 8.5-10% stake, this was later scaled back to 4.9%, enough to give the government a role, but not veto power over certain decisions (Lono 2006: 8). The final demand, which was subsequently withdrawn, was that another refinery be built in the province. In response to these demands, the oil companies argued that their offer had been more than enough. It was estimated that their plan would cost up to \$5 billion dollars, part of which included building another GBS.

While the oil companies claimed that it was the government's demands that caused the breakdown, Williams, claimed that he was only demanding what was fair for the province. He also claimed that talks had been going well and that problems had arisen when the oil companies asked for \$400-500 million worth of tax breaks (Park 2006: par 8). Thus began the ugly public battle in which Williams accused one of the partners, Exxon Mobil, of standing in the way of development. He was convinced that the remaining companies still wanted to move forward but that Exxon Mobil was holding them back. Thus, he asked Exxon Mobil to sell its share in the project to either of the remaining companies or, alternatively, to the province, so that development could proceed. If it were unwilling, Williams threatened to pursue fallow field legislation, which would force the development of the field by removing the right to develop a field from a company that did not develop it within a certain period of time. The field would be turned over to the Crown so that it could be developed by someone else (Auld 2006: par 6). Similar legislation currently exists in Alberta, where oil companies are given a limited amount of time to explore and produce oil (Sallot and Brethour: par 8). Williams had hoped to gain the support of the Prime Minister (Stephen Harper) for implementing this legislation, but the Prime Minister repeatedly expressed his desire to stay out of the matter, stating that it was an issue for the province to work out with the oil companies.

This has gotten the Prime Minister, the federal government, and the oil companies a great deal of harsh criticism from Williams. In September, 2006, Williams stated that, “The fact that the prime minister is not supporting me on the whole fallow field exercise and legislation, the only explanation I can see is obviously he's a supporter of big oil... And if he wants to be a big buddy to big oil, that's for him to decide” (CBC 2006: par 9).

Conclusion

This most recent clash between the government and the industry over an agreement to develop the Hebron oil field springs from the Newfoundland and Labrador government's effort to maximize local benefits from offshore development. While maximizing local benefits has been a central goal of the province from the start, it has constantly struggled to do so. It not only has had to fight the federal government to get benefits from offshore resources, but the oil companies as well. Despite this struggle, however, the province has learned a great deal about what works and what does not work to capture benefits. For instance, through development, the government learned the importance of establishing a royalty regime that takes world oil prices and production levels into account. It also learned that despite its original intentions, it could not be sure that companies would adhere to their benefits plans. Thus, with three projects under its belt, the government took a different approach with the Hebron field: Williams insisted that if development were to take place, it would take place according to his terms. He stated that, “...we're not going to give away our resources any more...” (Sallot and Brethour 2006: par). Therefore, the government's recent behavior with regard to developing the Hebron oil field can be seen as both the same as always and new and unexpected. It is the same as always in that it reflects the province's original goals for offshore development, which were to maximize local benefits, but it is also new because the government is now taking a different approach to getting those benefits.

Whether or not this new approach will work has yet to be determined. However, just as the past can reveal how things should be changed, it can also suggest possible outcomes to the situation. Previous developments particularly illustrated the importance of a secure investment climate. If companies do not know what to expect from a place, politically or financially, they are less likely to become involved there; companies want some degree of security about what they are getting into. However, despite efforts to secure the investment environment in the province, from an industry's perspective, the government's recent actions have done exactly the opposite. First, the province insisted on altering the generic royalty regime after it had been applied to only one project. Second, it demanded an equity stake in the project. And finally, the government threatened to take away Exxon Mobil's right to develop the field if it did not move forward with the project. All of these painted an unstable picture of the province and showed the oil companies that it could not be sure what to expect from the province. As Peter Fenwick says, “...other oil companies contemplating an investment may decide that it is too risky to do business with a province that increases its demands every time it feels like it” (2006: par 11). In fact, some people believe that the failed Hebron negotiations have already hurt the province because the project was meant to keep the momentum up in the industry. Thus, a slowdown could prove detrimental to the long term sustainability of the industry (Stevenson 2006: par 26). However, alternatively, perhaps the recent behavior by the government will ultimately lead to it accomplishing its original goals of

increasing provincial benefits when the field is finally developed. World oil prices are high. Oil companies want to profit from this, and with conventional sources of oil decreasing, their choices of places to develop are dwindling. Thus, by holding out, the government may be doing just what it needs to put itself in a better bargaining position when it sits back down at the negotiating table with the oil companies. Perhaps this most recent behavior by the government is just the strategy needed for it to finally accomplish its original goal and capture more significant benefits from the offshore industry.

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