

# **St. John's Board of Trade**

## **Submission to Hebron Public Review Commission**



**November, 2011**

## **Hebron - a positive project**

Thank you for providing the opportunity to comment on the Hebron project. The public comment process has been well communicated, it is timely, it is supported by a great deal of documentation and information, and the scheduling gives many individuals and stakeholder groups the opportunity to comment on various aspects of the plan. This is the sort of process that should be emulated in other major developments and by government itself.

The St. John's Board of Trade would like to offer some commentary on the benefits of the project and also some perspective about how to ensure these benefits are enhanced through cooperation and collaboration and made permanent through knowledge transfer and development of people.

This project, and the review process, are welcome opportunities.

## **The contextual environment**

The Hebron Project will contribute to the community, labour and the private sector for a long time if it goes ahead as planned. It can continue to contribute in a sustainable manner if the right investments are made and collaboration takes place.

Hebron will significantly extend the life of our oil industry, which pays for many public services and provides excellent opportunities for further diversifying our economy and expanding our demographic base. We have built an expectation that oil will support our private and public sectors locally, and Hebron will make a contribution for another generation, mitigating the declining production over the next decade.

We do feel, however, a moral obligation to warn people that we are on contract with a non-renewable resource and that can be a dangerous thing for our quality of life.

Oil is a non-renewable resource, so production can only occur once and royalties can only be accrued once. While changes occur in commodity prices or the value of the dollar, and the industry adapts to new processes and technology, decisions can and have to be made based on what we know now.

This province is 'on contract' with a non-renewable resource.

If Hebron wasn't projected to come online before this decade ends, we would already be in a situation where substantial changes would have to be made to public spending. We don't think it is right to base our actions on a big project saving us.

## **Just four-five years ago**

Four or five years is not a long time, but many things can happen in the interim. Let's talk about where we were just a few years ago and look at today.

From 2006 to 2011, private sector employment growth occurred in construction, financial services and professional services. Private sector jobs were lost in trade, transportation, accommodations/food, information/culture/recreation, business services and manufacturing. That is the snapshot of our economic make-up. Large capital projects boost construction, professional and financial services. The public sector also grew substantially.

Peak production was achieved in 2007 - production was 134.53 million barrels. This means that we are working with a resource that is declining.

In 2007, Newfoundland and Labrador had the highest level of exports in Canada, as a share of GDP. If you take out oil and gas from that figure, this province had the lowest level of exports as a share of GDP.

Context is vitally important. Hebron is necessary to shore up our economy and to send a clear signal that we are a player in this industry.

### **In the pipeline**

This is particularly true when exploration as the foundation of development and production is analyzed.

The rate of exploration and the timeline from discovery to production are concerning.

The number of wells in exploration, as reported by the Canada-Newfoundland and Labrador Offshore Petroleum Board, averaged:

- 5 per year in 1970s
- 5.8 per year in 1980s
- 1.1 per year in 1990s
- 1.7 per year in 2000s.

Recognizing that only one or two wells have to be commercially viable and significant to contribute large returns to the provincial economy, this does not appear to be a sustainable level of exploration. At the very least, it is a trend which is potentially troubling. And unfortunately it is not the only one.

Hibernia was discovered in 1979 and began first oil production in 1997. This happened with the significant support of the federal and provincial governments, who saw the opportunity to develop a needed industry in this province. Terra Nova was discovered in 1984 and production began in 2002. White Rose, also discovered in 1984, started producing in 2005. Now the project moving through the regulatory process is Hebron, a field discovered in 1981, with a projected production in 2017, assuming that the project proceeds as conceived.

Two of these projects took 18 years to move forward. One took 21 years and the last is scheduled to take 36. It is difficult to get a true average from such a small sample but the average time span between discovery and production is 23.25 years. To put a finer point on that, for any number of reasons - test drilling, economic viability due to world markets, regulation, etc - a discovery made in 2011 would, on average, produce oil in 2034. The industry profile for 2034 suggests that two projects will be in operation (Hibernia and Hebron) with 22.8 million barrels of production between them.

Another project coming on stream at that point would be very timely and welcome, but it means a concerted effort to drive and encourage exploration today. While we can push forward Hebron, we need to find the next project soon.

Exploration must be encouraged, and cooperation and collaboration will ensure a concerted and productive effort.

### **The global environment**

One major reason why the Board does not believe that we should count on oil into the future is that there are major factors beyond our control. Volatility in dollar values, oil prices and global demand can change the dynamics of the Hebron project or any other commodity development.

That said, major developments do have to take place in this province, certainly for the short and medium terms because of the reliance on such projects. Public sector spending is dependent on keeping oil money flowing while the private sector benefits from having large, international partners. Additionally, local professionals and tradespeople benefit from employment and educational opportunities.

### **The local environment**

Our economy is at a different point than it was when Hibernia came around. And so is our skill set and attitude.

We have more opportunities now and more opportunities in the pipeline. That means that Hebron doesn't have to take on the same role that Hibernia did, in terms of generating employment and wealth and opportunities. It can be one part of a larger industry.

That doesn't mean that results are not important or that the proponents can deliver less in terms of benefits. We need to earn our place in the project by being competitive and productive and innovative, but we need to make sure that agreements are strong and that there are mechanisms for making sure that we get the full benefits from this project. The Board will encourage people and businesses to go out and earn those benefits, just as it will encourage the Hebron development team to deliver results in this community.

### **Labour supply and skills**

Labour availability is considered a significant risk to this project and to other major projects anticipated throughout the province in different industries over the next 5-10 years. But there is a trickle effect. We would not be representing all of our members if we did not speak to the needs of small business. Small business is going to find it difficult to compete for talent; in fact, they are already finding it very difficult. We think that some of this risk can be mitigated by having large multinationals like ExxonMobil help with productivity improvements so businesses can do more with fewer resources.

Not all demographic challenges can be controlled, but some actions can be taken in the short term for positive effect.

In fact, very recently at an APEC session we heard that very message from business leaders from across Atlantic Canada. They know the demographic wave is going to crash here first, and hard, and doing more with less will be a mantra. But that doesn't mean there aren't steps to take.

Specific to the project at hand, and other major developments in the pipeline, the demand for skilled tradespeople will be high. While demographics are a risk, they cannot be changed overnight. However, there are levers at government's disposal to help mitigate risk. One positive action that they are taking is a pilot project where two apprentices can be supervised by one journeyman. This helps individuals achieve their professional accreditation. This pilot project has to become government policy - it would be a backward step for government to have two people getting closer to achieving journeyman status reduced to one.

The ratio should be permanent policy because it provides individuals with opportunities to progress, it strengthens and expands the overall labour pool, and it shows that this is a jurisdiction that takes a can-do attitude when it comes to developing its workforce and

delivering on its negotiated commitments to the private sector. It also helps to ensure that the plus or minus that is outlined in the benefits agreement, in terms of employment, actually ends up solidly in the 'plus' category for Newfoundlanders and Labradorians.

Government must also look hard at the results of its immigration efforts and foreign worker efforts. Perhaps more resources have to go to immigration; net migration over the past five years is averaging in the hundreds while the number of jobs that need filling over the next 10 years can be measured in the thousands and tens of thousands.

A recent report by Queen's University economics professors suggested a couple of directions for government. Substantially weighing skills-assessment because independent economic immigrants see the greatest improvement in earnings over their time in Canada and increasing immigration in this class should be put into practice. But here is the key one for this province and this context. "...in light of the evidence that the 1990-91 recession had a marked negative effect on the levels and growth of the earnings of immigrants who arrived in Canada shortly before that period, the federal government should consider reducing total immigrant admission levels during periods of high unemployment and slow economic growth."

Think about it in reverse. If you have relatively lower unemployment and faster economic growth, consideration should be given to increasing total immigration levels.

### **Sustainable benefits**

Each individual project gets us closer to a sustainable oil industry in which we achieve benefits that extend beyond any one project. Skills can be exported to other harsh environments, like the Arctic, which might provide more opportunities in the near future. Experience can be applied to building new industries that will provide employment and wealth creation after the oil runs out. Improvements can be made in how we do business so that we are a sought after place for future investment and growth.

We want the benefits of this project, and other projects, to outlive the resource.

That is the potential project legacy if we make the right choices and investments.

A multinational oil company recently said that their suppliers and partners have to come to the table with certain skills. There are high expectations that the supply chain for the industry have the right technology to either solve problems or unlock opportunities. The staff and capability must be available and it must be maintained throughout the project and deliver on time and on budget. And the right systems, processes and people have to be in place for the table stakes of safety and environmental management.

The people and businesses of this province have the capacity and desire to create knowledge and competitive advantage that we can use nationally and globally.

We need that more in our business community, in our academic and training institutions and in our culture. We can't expect to do more with less – that it, really improve our productivity – if we lull ourselves into thinking that because we're producing more oil we're actually a productive province. Innovation and continual improvement are of vital importance.

Sustainable benefits come from learning something from each project and not taking a superficial view of things. The stats look good. More oil money changes our debt-to-GDP ratio

substantially, but it doesn't fix our debt. It increases our productivity per capita statistic but doesn't actually fix productivity. And it puts money in our pocket but it doesn't control our spending.

We need to learn like we are at the frontier of managing successful oil projects in harsh environments, efficiently and effectively manage every activity like our competitors, and pursue process improvements like our economic future depends on it.

### **Next Steps**

The Board of Trade will look for opportunities coming from Hebron. For business-to-business, this will mean knowledge transfer and collaboration between local business to increase benefits. From a public policy perspective, it will include focusing on this project as additional help in the province's ability to pay down our collective public debt and diversify the economy that we will rely on into perpetuity.

Collaboration and aggressive pursuit of opportunities will be key for making the most out of this project.

We will also look for ways we can help address challenges. For businesses, it will include sharing best practices on creative labour utilization. For government, it will have to include further work on immigration recruitment and retention and ensuring that policies are progressive. For everyone involved in the process, it will have to include an aggressive and unwavering commitment to increasing local competitiveness to maximize benefits for Newfoundland and Labrador businesses and workers.

The business community looks forward to the success of the Hebron project and having it be something that we can help build and learn from.