

THE MARITIMES ENERGY ASSOCIATION – OTANS

202 Brownlow Ave., Suite A305 – Cambridge 1, Dartmouth NS B3B 1T5 902-425-4774 www.OTANS.com

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Commissioner Miller Ayre
Hebron Public Review Commission
Suite 903, 139 Water Street
St. John's, NL A1C 1B2

Dear Commissioner Ayre,

Thank you for this opportunity to make a written submission to the Hebron Public Review Commission.

The offshore oil and gas industry off Canada's east coast is about half a century old. Through the early days of exploration, to first oil at the Cohasset Panuke offshore oil project in 1992, to the existing four oil and gas production projects, the one in commissioning stage, and now Hebron; there has been an active, engaged and eager local supply chain.

OTANS – *The Maritimes Energy Association* is marking its 30th anniversary this year. Over those decades we have represented businesses that supply goods and services to the offshore oil and gas sector in eastern Canada. Recently, that has expanded to include the complete energy industry, renewable and non-renewable, offshore and onshore.

The mandate has remained the same, to maximize Atlantic Canadian participation in the supply of both goods and services to meet the needs of the energy industry. The association's purpose is to identify, promote and support the development of opportunities in the energy industry for our members and our region.

It is with that in mind we offer a few, brief comments on the Hebron project, and specifically its Benefits Plan.

Section 45 of the Atlantic Accord Implementation Act basically mirrors Section 45 of the Canada – Nova Scotia Offshore Petroleum Resources Accord Implementation Act. Specifically in the case of the Atlantic Accord Implementation Act it defines the benefits plan as *“a plan for the employment of Canadians and, in particular, members of the labour force of the Province and, subject to paragraph (3)(d), for providing manufacturers, consultants, contractors and service companies in the Province and other parts of Canada with a full and fair opportunity to participate on a competitive basis in the supply of goods and services used in any proposed work or activity referred to in the benefits plan.”*

This section of both implementation acts comes from the original Accords signed by the federal government with the respective provinces of Newfoundland and Labrador and Nova Scotia. Articles 50

and 51 of the Atlantic Accord (and Article 31 of the Canada – Nova Scotia Offshore Petroleum Resources Accord) provide insight of the governments’ objectives for local benefits.

Of particular interest in the review of the Benefits Plan for the Hebron project are the articles from the Atlantic Accord.

50. It is the objective of both governments to ensure that the offshore area is managed in a manner which will promote economic growth and development in order to optimize benefits accruing to Newfoundland in particular and to Canada as a whole.

51. The legislation implementing the Accord shall provide that before the start of any work program for exploration or field development, a plan must be submitted satisfactory to the Board for the employment of Canadians and, in particular, members of the provincial labour force and for providing manufacturers, consultants, contractors and service companies in Newfoundland and other parts of Canada with a full and fair opportunity to participate in the supply of goods and services used in that work or activity.

In its review of Canada and Newfoundland benefits plans, the Board shall seek to ensure that first consideration is given to services provided from within Newfoundland, and to goods manufactured in Newfoundland, where such goods and services are competitive in terms of fair market price, quality, and delivery.

The Board shall also require that any such plans include particular provisions, consistent with the Canadian Charter of Rights and Freedoms, to ensure that individuals resident in Newfoundland are given first consideration for training and employment opportunities in the work program for which the plan was submitted.

Over the years, Benefits Plans and therefore procurement plans have been reviewed to insure “full and fair opportunity” is provided to the local supply industry as required under Section 45 of the Accord Acts and the respective articles of the original Accords. Over the years, the definition of “full and fair” has been the topic of countless discussions, debates and deliberations in both offshore jurisdictions.

However, there is little doubt of the governments’ objective – economic growth and development for the people and businesses in each province, in the region and in the country. We would suggest that the authors weren’t looking at just the benefits that could be acquired by exploitation of our natural resources for the benefit of our provinces, but for the long term after these resources are depleted. So that the experience and expertise acquired by our local community in our own offshore sector, is used to grow an industry sector strong enough to compete in the global supply chain.

There are limited examples of the success of this objective. There are local businesses that through joint ventures and true initiative have grown to compete and succeed internationally. However, there could

be many more, if Benefits Plans and procurement were slightly tweaked to better embrace the “full and fair” mantra.

Our association appreciates the efforts made by the operators in both offshore jurisdictions to encourage supplier development and technology transfer. There is no doubt advances have been made in both, and our supply industry and our workers are better off for it. However, there are still cases where bid packages are so large, that local businesses do not have a ‘fair’ opportunity to compete. This includes the sheer size of the package, or financial requirements that effectively restrict the bidding strategy of a local company. The local supply community may very well have the ‘full’ opportunity to compete through notification of Expressions of Interest (EOIs), but the caveats placed on the EOIs or the Request for Proposals (RFPs) effectively eliminate the ‘fair’ part of the equation.

Experience has also provided us with examples of lost opportunities. In Nova Scotia, the original Development Plan for the Sable Offshore Energy Project provided for a tiered approach for development, but each tier was covered by the original Benefits Plan. Without the mechanism to review a new Benefits Plan, there was no ability to draw on the lessons learned from Tier I, to improve the plan for Tier II. Companies that received contracts through Tier I have little comment on the process, they continued to work. Those that didn’t, suggest they did not have a full and fair opportunity to compete through Tier II. They weren’t able to showcase the experience and expertise they acquired through the intervening years between Tier I and Tier II because the opportunity wasn’t provided. The review of a new Tier II Benefits Plan that included lessons learned from Tier I could have provided that opportunity.

Local benefits cannot simply be measured by the percentage of local people working or local companies contracted. The lasting benefit of projects such as Hebron, is to provide the opportunity for our people and businesses to gain the experience and expertise to compete globally. The oil and gas industry is cyclical on a local scale, but not so much on a global scale. The objective of a Benefits Plan, as described in Articles 50 and 51 of the Atlantic Accord (and Article 31 of the Canada – Nova Scotia Offshore Petroleum Resources Accord) is to promote economic growth and development. That needs to be beyond the projects in our offshore.

By its very definition a non-renewable resource has a depletion date. In Nova Scotia, Canada’s first offshore oil project has long since been decommissioned. Canada’s first offshore natural gas project is in decline with decommissioning in the offing. The true strength and importance of a Benefits Plan is to provide the opportunity for the local supply industry to outlive the non-renewable resource. So it doesn’t matter whether there is exploration or production off our shores; our companies, our workers and therefore our region continues to thrive and grow because we have taken advantage of the opportunities our natural resources provided to gain the experience and expertise to be world leaders. France does not have an offshore petroleum sector, yet it is home to some of the largest supply companies for the global industry.

In closing, may we recommend that your Commission consider the objectives of the Accords and the Accords Acts with respect to Benefits Plans that sought ‘full and fair opportunity to compete’ for local

companies. So that (1) a Benefits Plan be directed for Pool 3 taking into account the lessons learned from the initial development, (2) bid packages be designed and scaled to provide full and fair opportunity for local, regional and Canadian companies to realistically compete, (3) technology transfer enables local companies to gain experience to expand their expertise to be globally competitive, and (4) supplier development activities assist companies in addressing prerequisites including such areas as health, safety & environment, and quality control.

Finally, may I thank you for the time to allow our association the opportunity to provide our brief comments. As you are aware, the offshore provides unprecedented prosperity for Newfoundland and Labrador which spreads throughout the region. Our companies and our people have proven they can compete, but we cannot look at each project in isolation, nor review each project as though none has come before. "Full and fair" is not just about being advised of the bid packages, it can ensure a level playing field so local companies are positioned to benefit from our natural resources and gain the expertise to compete beyond and after our offshore.

Kindest regards,



Barbara B. Pike
Executive Director