

Canada and Newfoundland: partners in oil and gas management

Prime Minister Brian Mulroney and Newfoundland Premier Brian Peckford signed a long-term agreement on February 11 that gives the federal and provincial governments a joint say over offshore oil and gas management.

Announcing the agreement Mr. Mulroney said that the governments "have concluded an agreement that makes the province a full and equal partner in its own offshore development".

Mr. Peckford called the signing an historic day for the people of Newfoundland and Labrador noting that "they will be treated as an equal partner in offshore development and will be in a position to establish and collect revenues in the same way as other oil and gas producing provinces of Canada".

The accord was also signed by federal Energy Minister Pat Carney, Newfoundland Energy Minister William Marshall and federal Justice Minister John Crosbie.

The 68-clause agreement, called the Atlantic Accord, implements the agreement-in-principle of joint-management and revenue sharing associated with offshore oil and gas resources, reached between the two leaders in June 1984.

New board established

The accord establishes the Canada-Newfoundland Offshore Petroleum Board to administer all aspects of offshore exploration and development. The board will assume the functions and operations of Canada Oil and Gas Lands Administration (COGLA) and the Newfoundland and Labrador Petroleum Directorate (NLPD) for the Newfoundland and Labrador offshore areas.

Each government will appoint three members to the board and the chairman will be independent and appointed by both governments.

Major decisions made by the board will require the approval of both governments. Until national energy self-sufficiency and security of supply have been reached, however, or if self-sufficiency and security of supply have been lost, the federal minister of energy will have the final say over the pace and mode of exploration and the pace of production.

The agreement allows Newfoundland to decide how an offshore field would be developed, including the choice of a production system. Newfoundland's choice of a mode of development, however, would be subject to a federal override if it "unreasonably delays the attainment of self-sufficiency and security of supply".

If the two governments disagree over

what constitutes an unreasonable delay, or over whether self-sufficiency and security of supply have been reached, the dispute would be settled by a three-member arbitration panel, comprising a nominee of each government and a mutually agreed-upon chairman. If the nominees fail to agree on a chairman, the selection would be made by the chief justice of Newfoundland.

The agreement gives Newfoundland authority to collect revenue from offshore oil and gas activity, including royalties, corporate income tax, sales tax, rentals and licence fees and other forms of provincial revenue and taxes that may be established.



Prime Minister Brian Mulroney (left) and Newfoundland Premier Brian Peckford holding the energy pact that gives the federal and provincial governments a joint say over offshore oil and gas management.

An equalization offset payment formula has been developed to ensure that there will not be a dollar-for-dollar loss of equalization payments as a result of offshore revenues. Beginning in the first year of production Newfoundland will receive offset payments from the federal government equal to 90 per cent of a year's reduction in equalization payments. Beginning in the fifth year of production, the offset rate will be reduced by 10 per cent for each subsequent year.

Joint funding

A joint offshore development fund of \$300 million, to be grant-financed by the two governments in a ratio of 75 per cent federal, 25 per cent provincial, is to be established to

enable the province to develop the necessary infrastructure to meet the demands of oil and gas development. Contributions to the fund will be made over a five-year period on the basis of project requirements.

Mr. Peckford said the fund will be used to create economic activity by building roads, supply bases, and training and manufacturing facilities needed for offshore development.

Offshore activity

Exploration for oil and gas in the Newfoundland and Labrador offshore region began in 1964 and in 1979 the first major oil discovery was made at Hibernia P-15. The Hibernia field is located 165 nautical miles (306 kilometers) east-southeast offshore St. John's. Hibernia P-15, the forty-second well drilled on the Grand Banks, had a calculated flow rate of 20 000 barrels of high quality oil a day.

Since the Hibernia discovery, 17 new wildcat wells have been drilled on the Grand Banks, nine of which have produced significant discoveries.

A total of 45 exploration agreements are in effect in the Newfoundland and Labrador region, covering a total area of 26 million hectares. These exploration agreements include commitments to drill a total of 53 wells and represent a total program value of \$2.8 billion for the period 1982-90.

Part of the reason for this activity is that the sedimentary belt covering 80 per cent of the area offshore the province is of the same type that contains 86 per cent of the world's known oil and 71 per cent of the world's known gas.

Water protection pact

The Quebec provincial government and eight US states signed the Great Lakes Charter, a "good faith agreement" to work to protect against the excessive consumption or diversion of water from the Great Lakes.

The charter calls for: the establishment of a committee to compile data on major uses of water in the Great Lakes basin; efforts to pass legislation in each state and province to control new or increased withdrawal of water from the lakes; and regional consultation whenever a major new withdrawal of water in the jurisdiction of a state or province is contemplated.

Peter McAvoy, who headed the task force that prepared the charter for the Council of Great Lakes Governors, said projections show consumption of water from the Great Lakes doubling by the year 2000. The Great Lakes hold 20 per cent of the world's fresh water, an estimated 23 quadrillion litres.