

*Government Orders*

deposit off the coast of Newfoundland and determining how best to extract it.

There are formidable obstacles to be overcome. The waters of the North Atlantic are among the most hostile in the world. Icebergs and storms are an ever-present danger to workers and equipment. Recovery platforms must be located far from shore making them difficult to service. Compounding these hardships is the lack of an existing infrastructure in Newfoundland to support and service this type of an enormous offshore operation.

The Government of Canada has struck a long-term deal which will prove to be a sound investment for Canada. It is true that we are taking a substantial share of the risk in this project, but we will also reap our share of rewards when the returns begin to come in. There is a genuine sharing of these risks—the project's corporate sponsors are carrying their fair share of the load.

The federal government has offered two principal, special incentives—a loan guarantee and a cash contribution. In exchange we will earn a net profits interest as well as normal tax revenues. The province of Newfoundland has complemented these incentives with some adjustments to its royalty regime—principally to make it more profit sensitive.

Our loan guarantee, which amounts to about \$1.7 billion, is a key element of the deal. It involves no cash requirement for the government—and its terms give a high level of confidence that our contingent liability will never be called.

The guaranteed debt will be repaid fully at real oil prices above \$15 U.S. a barrel. Currently, the price of oil is about \$20 U.S. a barrel. This provides a powerful financial leverage to the project with relatively low risk to the government.

Moreover, the government of Canada will contribute \$1.04 billion, or roughly 20 per cent of the project pre-production cost in cash. This adds real value to the project. This component is large in absolute terms, but less so in relation to the \$20 billion cost over the life of the project.

More important, the federal government sees its cash contribution as part of the total government investment in the project. Even if the prices were to remain at the current real levels, the government could be expected to fully recover all investment—not only our cash incen-

tives, but any incentives delivered through the tax system—in this project and earn a small return.

The government will earn a major share of the upside. Governments' net real revenues from Hibernia will be more than \$3 billion if real oil prices average \$25 U.S. over the life of the project, from 1996 to 2010. While we all know that oil price forecasts are not infallible, petroleum companies are making long-term decisions based on modest real price projections.

These positive results do not include the considerable external economic benefits that will accrue to the province of Newfoundland and to the rest of Canada. These benefits will indeed be substantial in terms of jobs, spin-off economic benefits, and lower unemployment insurance payouts. In fact, every dollar spent on this project will yield several dollars in primary and secondary benefits to Newfoundland and Newfoundlanders.

Over the life of this project \$11 billion in expenditures will pass into the province's economy, as companies drill, operate equipment, and bring the oil from the Hibernia wells onshore.

But the benefits will not stop at the Newfoundland border. About 50 per cent of Hibernia's \$5.2 billion development costs will be spent in Canada, with over one-half of the jobs going to Canadians, mainly to Newfoundlanders.

In all, 45 per cent to 50 per cent of the project will be "Made in Canada". Hibernia will have a higher percentage of domestic content than was enjoyed by the British or the Norwegians when they began extracting oil from their North Sea regions.

Without a doubt, Hibernia will be a truly Canadian venture. The main platform to be built for the field—the gravity base structure—will be a massive, reinforced-concrete structure that will extend above sea level to provide a stable base for drilling and production operations. The oil will actually be treated out at sea in facilities built atop this giant platform, and will then be moved to market via ice-strengthened tankers.

The GBS, which will require almost half a million tonnes of high-quality concrete and cables to build, will be able to store 1.45 million barrels of oil. It will be built to stand up against the worst that the North Atlantic has to offer, and it will be built in Canada. It will offer