

Knowledge is power

The petroleum sector is Newfoundland and Labrador's economic engine. So why don't more people understand the industry and how it works?

By Caron Hawco



For a province that relies so heavily on the petroleum sector, we have a responsibility to be well versed on how the industry works in our community and how related public policy is formed. We enjoyed tremendous prosperity during the highs of \$100-barrel oil and mega-project developments; we are now experiencing a dreadful low during the current downturn, which has severely reduced royalty payments to the province.

As we navigate through these challenging times, we can expect changes that will alter Newfoundland and Labrador's oil and gas sector in the future. According to the provincial government's vision document, *The Way Forward*, a new generic oil and gas royalty regime will be in place by March 31, 2017. The government also promises to provide certainty to attract exploration and provide life cycle benefits from oil and gas projects.

The region's oil and gas industry association, NOIA, through its own plan, *Redefining Oil*, has also been challenging traditional thinking relating to oil and gas development agreements, asking for a "renewed approach" to foster a competitive and sustainable industry.

Negotiating development agreements is no small matter for government or a petroleum company. Reaching the perfect balance between royalties, benefits and equity ownership to ensure the province maximizes the value of its natural resources while remaining a globally competitive jurisdiction is extremely difficult.

I wonder if we really know enough about this industry and what this all means? Do we understand how our government makes petroleum-related public policy decisions and the implications of the development agreements they reach with these global investors?

I've met numerous people who are making important business and career decisions, chasing their piece of the petroleum pie. Some know little about the industry, the potential, the limitations and the considerable risks. They often ask for

my insight on the next "big project" and are looking for a "sign" to indicate that something is going to happen.

It seems there are misconceptions and limited understanding relating to one of our major economic engines. It's very odd and concerning when you consider the importance of this sector on our society.

I admit the oil and gas industry is not an easy one to understand. Despite the many hats I have worn in the petroleum industry, I did not fully comprehend the industry's economic drivers for many years. The industry can seem extremely complex, and it can be difficult to understand what drives development decisions. The reality is, the oil industry is very conservative in how it shares information, and the political considerations can seem complicated and loom large.

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Contributing to this lack of understanding is the fact that there is very little information available. You could review the past petroleum development agreements on the Government of Newfoundland and Labrador's website, such as the Hebron Agreement, or the former Progressive Conservative government's Energy Plan, but truthfully, the information would likely not be insightful or useful. You do need some industry knowledge

to make sense of the material.

I encourage you to visit NOIA's website (noia.ca) if you want to learn more about the business community and infrastructure supporting the province's oil and gas industry and NOIA's *Redefining Oil*. But keep in mind NOIA tends to focus on the service and supply side of the business and policy relating to local content, so you will not find information about the specific agreements or industry economic policy.

So, there isn't a lot of information provincial residents can digest. Still, the knowledge gap is there. With so much of our economy heavily influenced by the petroleum industry, shouldn't we all have a better understanding of how the industry works? While the price of oil is always a huge consideration, what other factors motivate oil companies to explore and develop? Does local content matter? Should the province expect equity in projects? Should we demand more royalties? Are we competitive? And how do we compare globally?

Ultimately, we should have some understanding of these important considerations as government establishes its industry framework for the future. We should, at the very least, know enough to ask the right questions, as the answers will have implications on our society for generations. |nrm

Caron Hawco, ABC, is a strategy consultant specializing in natural resources, stakeholder management, public affairs, diversity, facilitation and media relations.

FEEDBACK

✉ dcampbell@naturalresourcesmagazine.com 🐦 @NRM_Editor; #Insider