

ADDRESSING ARCTIC ASPIRATIONS

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Introduction

There is great interest in exploring for hydrocarbons in the Arctic given reduced ice cover and large resource estimates. This is reflected in both increasing activity and the numbers of conferences addressing the challenges of working in these harsh northern environments. These events typically focus on technical issues, paying little attention to the effects on Arctic residents. Where these are considered, the emphasis is typically on indigenous peoples and their existing livelihoods and lifestyles. Similarly, the human dimension of the Arctic Offshore Oil and Gas Guidelines (Arctic Council, 2009) comes through consideration of: areas of cultural, scientific, historic, aesthetic and wilderness significance; livelihoods, societies, cultures and traditional lifestyles; and subsistence activities. The emphasis is on preserving the biophysical environment and existing livelihoods, cultures and lifestyles, with little consideration of the potential for economic benefits.

This focus is problematic because it does not fully engage, and may shape, the aspirations of Arctic residents. In some jurisdictions, such as Greenland, there is a broad recognition that hydrocarbon activity can deliver economic development and greater political autonomy. However, negative attitudes towards resource extraction activity are common throughout the Arctic, often based on stereotypes and a limited understanding of these industries. Many Arctic residents believe that most or all benefits accrue to non-locals, construction activity has 'boom-bust' effects, and operations pose major biophysical, socio-economic and cultural threats. Such negative assumptions are damaging to the interests of the petroleum industry and Arctic residents themselves. For the industry, they result in arduous conditions or moratoria, and increase project costs. From the perspective of the local stakeholders, potential benefits may be delayed or foregone.

These negative attitudes have been encouraged by the environmental industry, which first developed in a response to an offshore oil spill in California, and hence a concern with biophysical effects. These are primarily negative, leading to a focus on mitigation and prevention, and this shaped the regulatory framework and the culture of the environmental industry, including the values, approaches and methodologies of those involved. It was only when the industry and its culture were well established that various factors resulted in concern about socio-economic effects. Because these are often positive, the industry and environmental legislation and methods do a poor job of describing, managing or providing credit for them. For example, the Canadian Environmental Assessment Act still specifies that environmental assessments should normally only consider socio-economic effects that result from a biophysical effect. Given this, socio-economic impact assessments are of limited value as tools for delivering economic and social benefits from projects. (Shrimpton 2005a)

The rest of this paper discusses the use of Industrial Benefits Planning (IBP) as a tool for addressing many of these concerns. It first defines IBP, then describes a recent best practice example of a benefits plan, and lastly outlines an example of success from benefits planning.

Industrial Benefits Planning

Industrial Benefits Planning is a collaborative process whereby industry and local governments and residents work to enhance the benefits of projects to the jurisdictions within which they occur and to adjacent communities and social groups. It is primarily concerned with the ways in which project expenditures, including those associated with employment, business and infrastructure, can be used to deliver economic and social development. It does not include taxes and royalties, local equity involvement in projects, or voluntary community contributions. (Shrimpton 2012)

There has been a rapid growth in interest in IBP. Governments want to ensure that their citizens benefit from projects, not simply through taxes and royalties, but directly through employment and business. Adjacent communities and particular stakeholder groups recognize that without some type of intervention they are more likely than others to bear the economic, social and environmental costs of the project, but not receive the benefits. International financial institutions increasingly consider local benefits when reviewing project-funding applications (World Bank 2005). Lastly, project proponents consider benefits part of their corporate social responsibility mandate, and important to having a social license to operate and thus project approval.

The Hebron Benefits Plan

The Hebron Benefits Plan (Hebron 2011) is a recent and often innovative example of such a plan. The Hebron oilfield development project is located on the Grand Banks of Newfoundland, in an area which experiences icebergs and other environmental challenges like those of the Arctic. Newfoundland and Labrador is also a jurisdiction that has developed petroleum-related capabilities and expertise from a previously very limited industrial and human resource base.

The oilfield contains an estimated 600 to 1100 million barrels of recoverable resources, which will be developed using a combination of onshore and offshore activities. Project work started in 2012, with a view to achieving first oil in 2017, for an estimated production life of 30 years. The Canada-Newfoundland and Labrador Offshore Petroleum Board (C-NLOPB) manages such petroleum resources, pursuant to the Atlantic Accord Implementation Acts (Canada-Newfoundland 1987). Under this legislation project proponents cannot obtain approval of a Development Application without prior approval of a Benefits Plan that describes how the proponent will ensure the project delivers local employment, education, training, business and research and development (R&D) activity over the course of construction and operations.

Five benefits principles drive the Hebron Benefits Plan (Hebron 2011):

- Meeting local benefits commitments while maintaining the highest levels of safety, environmental performance, efficiency and integrity of our operations;
- Selecting contractors and suppliers that will work diligently with us to deliver benefits to the people of the Province of Newfoundland and Labrador;
- Promoting the development of local skills and industry capability that leaves a lasting legacy for the communities in which we operate and for the Province;
- Delivering execution certainty so that the Project delivers best-in-class return on investment for stakeholders, including the Province; and
- Working collaboratively with industry, government, academic and training institutions, community and other stakeholder groups for the effective delivery of benefits.

Of note is the emphasis on leaving a lasting legacy and collaboration with other stakeholders. In the former case, the Plan seeks to deliver sustainable economic development, including:

- Providing training and employment experience applicable to Hebron and subsequently transferable to other projects and industries;
- Developing business, education, training and R&D capabilities and experience that is subsequently applicable on other projects, industries and markets; and
- Building project-related infrastructure that can be utilized beyond the end of project-related use.

The Plan is also innovative in identifying benefits opportunities, for example through:

- Promoting rural area access to benefits opportunities;
- Industrial tourism initiatives, to educate about the project and provincial offshore petroleum activity and contribute to local tourism; and
- Further developing local capabilities related to the assessment, monitoring and management of the socio-economic effects of petroleum and other resource development activity on rural, peripheral and Arctic areas.

The Plan stresses the importance of collaboration to the effective delivery of benefits. It commits to regular engagement with local stakeholders, and recognizes that the business of benefits planning is delivering sustainable economic development and that the expertise in dealing with this topic, especially in the local context, does not reside within the oil industry. Plan initiatives include establishing:

- A Benefits Advisory Committee, comprised of economic development experts, to review developments in their areas of expertise and discuss the implications Hebron benefits planning; and
- A benefits community of practice initiative, to bring together practitioners to discuss topics of mutual interest and identify and promote good practice, effectiveness and efficiency.

The proponent also commits to establishing a project 'benefits culture'. Using approaches similar to those used in building a safety culture, this sees benefits considerations being inherent to business processes and practices, rather than a separate consideration.

The body of the Plan lists detailed policies, guidelines and procedures with respect to supplier development, contracting and procurement, employment and training, R&D, diversity and monitoring and reporting over the life of the project. In the case of supplier development, and consistent with the principle of collaboration, the proponent has established an open dialogue with local suppliers, using such initiatives as:

- A website and supplier information sessions that provide timely communication of opportunities;
- Site visits to assess prospective contractors infrastructure, operating procedures and capabilities; and
- Managing all project procurement from Newfoundland offices, so as to ensure there is a full familiarity and engagement with local capabilities.

Project employment and training plans are designed to satisfy the regulatory requirement that locals receive first consideration for employment. It is symptomatic of the success of earlier benefits initiatives that, as of mid-2010, half of the Hebron direct management team, including the regulatory, environmental, benefits, procurement, labour relations, diversity and public affairs leads, were Newfoundlanders.

The Hebron monitoring and reporting process is designed to refine and develop benefits processes and policies so as to ensure they are appropriate and effective throughout the life of the project. Monitoring and reporting of procurement decisions, employment levels and expenditures also demonstrate to the C-NLOPB and public that Plan commitments are being met.

A Positive Benefits Outcome

As was noted above, Newfoundland and Labrador presents many challenges similar to those of the Arctic. Furthermore, while it has recently developed a thriving economy, it has historically had many of the characteristics associated with some Arctic jurisdictions: a resource-based and often subsistence economy, a population living in one major centre and numerous small, widely-distributed and poorly connected communities, a reliance on transfers from colonial or federal sources, limited industrialization, high birth rates, and low levels of education, literacy, nutrition, labour participation, employment and productivity. Fiscal challenges led to the then Dominion of Newfoundland declaring bankruptcy and surrendering representative government in 1933. After joining Canada in 1949, the grim economic picture continued, with Newfoundland trailing the other provinces by almost all economic and social measures and being a major recipient of fiscal transfers.

Addressing these concerns was the main political issue of this whole period. The most significant, because successful, response was the late-1970s provincial government decision to seek to harness prospective offshore oil activity to create economic growth. Based on discoveries commencing in 1979 and production since 1997, and thanks in part to the benefits requirements introduced in the Atlantic Accord legislation, the oil industry has had a transformative effect. For example, from 2002 to 2010, the industry's estimated annual contribution to:

- The provincial Gross Domestic Product averaged \$7.8 billion (or 34.8 percent of the total);
- Employment averaged 13,100 full-time equivalent positions (13.1 percent);
- Personal incomes averaged \$955 million (6.7 percent); and
- Retail sales averaged \$423 million (6.7 percent) (Stantec 2012).

In addition, during the 2010-2011 fiscal year, the provincial government received approximately \$2.4 billion from petroleum resource taxes and royalties.

The petroleum industry has been the engine for major and sustainable economic development, through the export of oil industry expertise, goods and services to other national and international markets, and the sale of this expertise and these goods and services, or developments thereof, to other industries, locally, nationally and internationally. Furthermore, in terms of such things as business practices and ambition, local petroleum industry companies have become role models to the business community as a whole. (Shrimpton 2005b)

Newfoundland and Labrador now has one of Canada's fastest economic growth rates, an expanding university sector, a small but thriving R&D community, an increasingly cosmopolitan urban culture and improved external transportation links, all of which can be at least partly attributed to the oil industry. As of 2008, Newfoundland and Labrador also became a contributor to, rather than a recipient of, national fiscal transfers.

Conclusion

Some of the greatest challenges in Arctic resource exploration and development activity relate to the concerns and aspirations of local people, and these can increase costs and result in arduous conditions or moratoria. IBP can greatly assist oil companies that are seeking to access or operate in frontier regions, including the Arctic. This paper has described a 'best practice' recent example of a benefits plan, and provided new information about a jurisdiction which has used IBP to help achieve substantial and sustainable benefits from hydrocarbon activity.

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