



**Written Submission for the  
Pre-Budget Consultations  
in Advance of the Upcoming Federal Budget**

**Submitted by**

Newfoundland and Labrador Oil and Gas Industries Association (Noia)  
Box 44, Suite 606, Atlantic Place  
215 Water Street  
St. John's, NL A1C 6C9

## List of Recommendations

- **Recommendation 1:** Establishment of an Atlantic Investment Tax Credit (AITC) or similar program to help current, deferred and future projects by providing a 15 per cent credit for short-term projects and up to a ten per cent credit for long-term projects.
- **Recommendation 2:** Establishment of a multi-well exploration incentive program with graduated reimbursement of capital costs ranging from 30 to 70 per cent.
- **Recommendation 3:** Removal of duties on specialized world asset vessels.
- **Recommendation 4:** That government explore options to incentivize projects and investment in GHG reducing technologies with the goal of positioning Newfoundland and Labrador as global leaders in cleantech.



On behalf of the members of the Newfoundland and Labrador Oil and Gas Industries Association (Noia), I thank you for the opportunity to contribute to the budget consultation process with the following submission.

Noia was founded in 1977 to represent the supply and service sector of the offshore oil and gas industry in Newfoundland and Labrador. Today, Noia represents approximately 500 member organizations worldwide which are involved in, or benefit from, the oil and gas industry in the province. Noia members are a diverse representation of businesses that range from offshore supply boats and helicopters to health and safety equipment and training, engineering solutions and fabricators to law firms and personnel agencies.

The offshore oil & gas industry is Newfoundland and Labrador's largest industry. It represents 25 per cent of the provincial GDP and 41 per cent of exports for the past 20 years. Since 1997, four major producing projects have generated over \$120 billion in revenue. As of March 31, 2017, the industry contributed \$19.8 billion in cumulative royalties to the provincial government.

In the Prime Minister's mandate letter to then incoming Minister of Natural Resources, Seamus O'Regan, he stated, "As Minister of Natural Resources, you will work to ensure that our energy and natural resource sectors remain a source of good middle class jobs, prosperity and opportunity across the country. This includes supporting resource communities and workers as they shift into cleaner technologies and Canada meets its climate action objectives, while also supporting and promoting the competitiveness of our Canadian companies in order to attract investment, open international markets and get resources to markets."

Newfoundland and Labrador needs Canada's leadership and support to create a future offshore industry that is both environmentally sustainable and economically competitive. Canada's offshore oil & gas industry can play an important role in our country's economic recovery.

Over the last year the industry has been faced with two fundamental crises. The impacts of Covid-19 resulted in a drop in global oil demand to levels not seen since the Second World War. This, coupled with the price war between OPEC countries and Russia, has created historically low prices for our oil product.

As a result, capital investment in Newfoundland and Labrador's offshore industry has been stalled. Developments such as Suncor's Terra Nova asset life extension and Husky Energy's West White Rose project have been deferred, exploratory drilling has been delayed, investment decisions such as subsea tiebacks and Equinor's Bay du Nord project have been put on hold and drilling at Hibernia has been halted for at least 18 months. The province's only refinery has temporarily closed and upgrades there have been put on hold. Thousands have lost their jobs and individuals and families are suffering.

The provincial Department of Natural Resources recently released staggering figures that show a potential loss of 90,000 person years of work, \$11 billion in revenue and \$55 billion in GDP to Newfoundland and Labrador over the next 10 years, if delayed and cancelled oil projects do not proceed.

Also, in a recent survey conducted by Noia, it was indicated that our member companies have laid off a combined minimum of 5,200 employees. What is even more startling is that 71 per cent of the surveyed members said they expect more layoffs to come.

### **Exploration and Development Incentives**

The investment climate post-Covid-19 is fiercely competitive and investment dollars are scarce. Many jurisdictions are offering highly beneficial incentive programs to entice investment. Norway, for instance, has a long-standing incentive for exploration drilling which has led to plans for 30 exploration wells in 2020 – even with the pandemic. As well, they have introduced further incentives totalling \$30 billion to restart delayed or deferred projects. The result is that dozens of projects are up and running again with thousands of people back to work. Noia is asking for the same vision in Canada so that we can restart the economy and globally compete for investment, including foreign direct investment.

Exploration drilling is an important component of any project's life cycle. Exploration leads to development and production. A single \$100 million exploration well drives double the economic benefit, increasing our national GDP by \$84 million and creating 628 annual jobs, with almost 800 jobs created at peak employment. If exploration is successful, a development project may increase Canada's annual GDP by \$2.3 billion and support 4,400 new jobs for the life of the field.

Development projects generate significant benefit for employees, suppliers and the provincial and federal governments. For instance, one new deepwater project could generate \$3.5 billion in revenue for government, 10,000 person years of employment and \$14 billion in GDP.

#### **Based on the success of exploration and development incentives, Noia recommends:**

- Establishment of an Atlantic Investment Tax Credit (AITC) or similar program to help current, deferred and future projects by providing a 15 per cent credit for short-term projects and up to a ten per cent credit for long-term projects.
- Establishment of a multi-well exploration incentive program with graduated reimbursement of capital costs ranging from 30 to 70 per cent.

The AITC is a program that companies in the oil and gas sector could avail of until 2012. Given the dire circumstances, Noia is requesting the same be permitted again.

The proposed exploration incentive is based on the Petroleum Incentive Program (PIP) that had been in place decades ago and resulted in the producing fields currently in operation today.

### **Duty on Specialized World Asset Vessels**

The use of specialized world asset vessels will be critical to achieving future success in Newfoundland and Labrador's offshore industry. While such vessels are used temporarily in the Canadian offshore, they have a significant impact. That said, their temporary use poses a problem in that there is not always a sufficient need within Canada to have these vessels in-country and flagged as Canadian. As such, when they enter Canadian jurisdiction to operate, they are subject to significant duties, generally upwards of 25 per cent. Further, there is no or limited Canadian supply of such vessels and capacity to construct these vessels in Canada is limited.

The duties levied upon these vessels diminishes Canada's competitiveness as most jurisdictions our nation competes with in the offshore oil and gas industry such as Norway, the United Kingdom, and the United States, do not apply these duties. Further, Noia fears that by maintaining duties on these vessels, the Government of Canada may be impeding its own progress in meeting international obligations to reduce greenhouse gas emissions as companies are less likely to use newer, more fuel-efficient vessels in the Newfoundland and Labrador offshore.

In December 2018, the House of Commons Standing Committee on Finance stated that duties on specialized world asset vessels should be removed. It also noted that Canada is the only nation imposing such duties, thus harming the competitiveness of the offshore oil and gas industry.

**Noia recommends:**

- Removal of duties on specialized world asset vessels

**Global Leaders in the Energy Transition and Clean Technology**

On June 10, 2020, the Government of Newfoundland and Labrador announced its commitment to achieving net-zero by 2050.

This commitment will challenge all sectors of the economy to reduce their environmental footprint and creates an opportunity for Newfoundland and Labrador to be trailblazers in clean technology.

Industries will need to embrace new innovative ideas to reduce emissions, presenting substantial opportunities for Newfoundland and Labrador's cleantech sector. There are a number of technologies which hold significant potential to reduce not only costs, but also our GHG footprint. Prospects include the powering of offshore facilities with electricity from onshore generation and offshore wind turbines, opportunities for carbon capture and storage, as well as other areas throughout the supply chain.

Current market conditions make it challenging for companies to commercialize new technologies due to the drain on cash flow during the commercialization process. As a result, commercialization is often deferred or cancelled, resulting in the loss of economic and environmental benefits.

**Noia recommends:**

- That government explore options to incentivize projects and investment in GHG reducing technologies with the goal of positioning Newfoundland and Labrador as global leaders in cleantech.

**Ensuring Future Success for Newfoundland and Labrador's Offshore Industry**

Newfoundland and Labrador's offshore oil & gas industry should continue to be a part of the global energy mix into the future. The world will need oil for decades to come and some of that oil should continue to come from Newfoundland and Labrador. Canada needs to find ways to ensure it continues to attract its share of global exploration investment.

Our oil is a light, sweet crude and approximately 30 per cent below the global average for GHG emissions at extraction. With one of the lowest carbon-per-barrel footprints in the world, Newfoundland and Labrador's offshore oil production generates only 0.23 per cent of Canada's total CO<sub>2</sub> upstream emissions.

Canada has a clear choice. Support Newfoundland and Labrador's offshore industry with sound policy decisions to ensure it remains globally competitive and economically feasible and continues to supply its low

carbon-per-barrel oil to the world. Alternatively, Canada will need to continue to import foreign oil to meet its growing demands. In 2019, Canada imported an astonishing \$19.8 billion in foreign oil – oil from countries that often do not have the same environmental or safety standards as we do in Canada.

Canada can have a similar success story as Norway. With strong governance, the right policy conditions and long-term vision, Canada can join Norway as a leader in the global energy market. Newfoundland and Labrador can play an important role in helping Canada with its green energy transition and be innovators in clean technology for a more sustainable future.