

**Oil and Gas Developments:
Prospects for Sustainable Community Life?**

Peter R. Sinclair

Memorial University and University of Waterloo, Canada

Paper presented to a Forum on
Offshore Oil and Gas Exploitation in the Gulf of St. Lawrence

Les-Îsles-de-la-Madeleine

8-9 April 2011

Introduction

It is possible that Les-Îsles-de-la-Madeleine sit close to an oil and gas field much larger than Hibernia. Should you be very happy about this, cautiously optimistic, or bitterly opposed? By looking at experience elsewhere, I shall reach my own conclusion and at least give you information that you may find useful in forming your opinions. First, a quote about Alberta.

The demands of the tar sands originate in the unstable, shifting politics and economics of world energy, in the investment strategies of the international petroleum industry, and in the policies of our own governments. Such demands have little in common with the needs of those most likely to be affected by development, and they have little to do with the best interests of Albertans and other Canadians in deriving the maximum benefit from the use of their exhaustible resources (Larry Pratt, *The Tar Sands*, 1976).

Thirty-five years later, much the same could be written about the impact of oil sands development in Alberta. Will these words describe what will happen in Les-Îsles-de-la-Madeleine? What will development mean for community sustainability? Is this a blessing that assures survival or a curse filled with false promises? The notion of oil as a curse comes from many cases in which local residents fail to capture a reasonable share of the value of the resource or experience a decline in their quality of their life. How do local and regional authorities relate to the oil and gas industry? Can they be effective in linking that development to community sustainability? These are my questions.

Actually, I have often questioned the use of both community and sustainability, and the implicit values they convey. **Community** refers loosely to groups of people who have some common interest or values. When the common interest is place of residence, I have no problem with it. The further implication is that members of a community share common values and ways of behaving. I think this is highly misleading and romanticized when applied to localities.

Sustainability is also problematic. It can mean that conditions of human life or of the physical environment are maintained with minimal change. However, it is rarely the case that all aspects of community (understood as place of residence) and environment can be sustained. They are often in contradiction, as when preservation of fish is at odds with maintaining a particular fishery. Also, it is usually assumed that sustainability is preferable to transformation, even to moderate change. I am always **wary** of **romantic** images of a past in which people of small communities worked together in consensus to maintain their lives in harmony with their environment. At least, let us ask what it is we want to sustain.

So I understand community sustainability as people living in a particular location indefinitely. This does not mean that social institutions and cultures

have to remain the same. Probably, such a static vision is impossible. If this is reasonable, I think the appropriate role for social science is to assess what might happen and in whose interests. What should happen is a question that I can answer only for myself.

Energy sits at a critical intersection of people and the physical world. Together, they form a hybrid assemblage of materials, technologies, social organizations, cultural practices and humans. Energy in the form of fuel allows the complex system of global capitalism to function.

Although complex systems are not fully predictable in principle, this does **not mean** that all outcomes are equally likely or that it's useless to consider interventions that might generate more desirable outcomes. To do so requires understanding the dynamics at work, and especially the interests and powers of the various actors whose behaviour most influences the system. In my talk, this means the different levels of state or public authorities, corporate industrial networks, and local communities in so far as the latter are organized to act.

In the remainder of this talk, I will highlight issues that should be kept front and centre during the process of development. I end with a short review of what has happened in Alberta and Canada's western Arctic, but I focus mainly on the cold ocean context of Newfoundland to see what can be learned from that regional state's struggle over development and from the experiences of fishers at a micro level.

Regional authorities confront big oil

Newfoundland and Labrador is an interesting example in considering the blessing or curse question. Before oil, this province had twice the national levels of unemployment, the highest per capita government debt, required yearly transfer payments from Ottawa to maintain public services, and experienced persistent out-migration. What took place informs us about the conditions under which local or regional authorities can succeed as they confront higher levels of government and major corporations.

I will not review here the struggles between the provincial and federal governments over jurisdiction, nor the disputes with oil companies over technology and royalties for the first three fields. I shall only note that the royalty agreements produced little revenue for the province and that it proved difficult to ensure that the province would benefit from construction and engineering related to the development of the fields, largely because the wider circumstances of the industry did not make the resource at stake immediately attractive to the major companies. Without their expertise and willingness to invest, nothing can move forward. Instead, I will take you through the highly informative Hebron dispute.

Discovered as long ago as 1981, Hebron has not yet been developed, probably because its heavy oil will be more expensive to extract than light crude and the refined product is worth less. Let's look at what happened.

During the early period, the lead operator for Hebron was Chevron (28 percent) until ExxonMobil (37.9 percent) took over in 2008. The consortium also included PetroCanada (23.9 percent) and NorskHydro (10.2 percent). In 2000, Chevron announced interest in pushing ahead, but shelved that plan in 2002 when lower oil prices appeared not to justify the cost (Baird 2002). By 2005, prices rose along with concern about a secure supply to make Hebron attractive again.

In April, negotiations started with the provincial government, led by Danny Williams and the Conservative Party. Mr. Williams is more a Newfoundland nationalist and populist than a conventional conservative politician. This statement captures his style:

The biggest thing that we had to change when we came into government was the psyche of Newfoundlanders and Labradorians. We wanted to make sure that they felt very positive about themselves and had self-confidence, that we're as good as the rest of Canadians... It's about earning respect and I think we're getting that (Gray 2008).

In pursuit of this, Mr. Williams refused to be overawed by corporations or other governments.

Agreement looked possible until Chevron announced that it was abandoning the project because the province would not agree on reasonable terms (Chevron 2006). What appeared to rankle the companies was the province's insistence on an equity stake, although the final request was only 4.9 percent. The second key demand was the introduction of a super royalty when oil prices were exceptionally high.

Williams' response was that the real stumbling block was Chevron's request for up to \$500 million in tax concessions. Actually, he identified ExxonMobil as the difficult partner and offered to buy out its share to move forward (Jackson 2006). If not, he proposed legislation that would limit the amount of time a lease could be held without development. This required federal support, which was not forthcoming. Williams was furious:

The fact that the prime minister is not supporting me on the whole fallow field exercise and legislation, the only explanation I can see is obviously he's a supporter of big oil... And if he wants to be a big buddy to big oil, that's for him to decide" (CBC 2006: par 9).

In 2007, there was some public concern that the government had erred by pushing Chevron to the limit and causing a major slowdown in the area's economy. On a number of occasions, the Newfoundland Ocean Industries Association claimed that they would suffer economic contraction with Hebron on the backburner and urged the Premier to resume negotiations. This annoyed Mr.

Williams, who felt that such comments undermined the government's position by making the "oil companies think they've got wind up their sails ... and the government are going to fold. Well, nothing could be further from the truth" (Baird 2006).

Williams remained firm, oil prices rose, and in the summer, he announced an agreement in principle that included an investment by his government to secure 4.9 percent of the equity. What had been insurmountable obstacles, according to Chevron, melted away.

The project was expected to produce about \$16 billion for the province over a 25-year period. A year later, the final agreement was greeted enthusiastically by business and the public in St. John's where house prices reportedly jumped \$30,000-50,000 the day the deal was proclaimed.

In the Hebron dispute, no participant held total power and none got exactly the desired outcome. The Chevron group's key resource was its willingness to develop Hebron. The government's chief bargaining chip was that it had to approve the development plan for expansion into Hibernia South and this appears to have been delayed pending a favourable outcome on Hebron (Cattaneo 2007). Also, Mr. Williams' general popularity as a defender of the people of the province remained high. Eventually, an agreement was reached that came reasonably close to the province's objectives.

The provincial government's strategy of holding firm for its preferred conditions was effective, but only because circumstances beyond its control favoured this outcome. A knowledgeable interviewee stated that the companies decided to come back because they:

...are always motivated by their ability to make a profit on a project and I think they believe that they can make a good profit from Hebron while still meeting the demands that the province has. So it's basically, sort of, a regular business decision for them.

Indeed, corporations do what their managers believe is necessary to make profit. They will eventually reach agreements when failure to do so would harm their interests. This appears to have been the situation with Hebron. Had the world been awash with potential oil fields in politically favourable locations, Hebron might have remained on the backburner for decades. Moreover, Canada is considered stable, friendly to capitalism and thus ideal for investment. The equity stake and increased royalties were moderate when compared with many developments around the world. Mr. Williams' populist style might have irritated some company executives, but was surely irrelevant to the decisions to abandon and then to revive the Hebron project.

The arrangement reached is generally advantageous for the province, although long-term benefits depend on an astute combination of reducing the

huge per capita provincial debt and investment in long-term, environmentally friendly development. The short-term data carry a mixed message. For example, per capita disposable income shows a strong upward trend in recent years, but the province continued to lose population through migration until 2008-9, when the recession probably contributed more than anything else to a net gain (Newfoundland and Labrador Community Accounts). It still has the country's highest per capita debt.

The scale or unit of analysis is important because significant inequalities can exist among smaller segments of a region. Thus, the economic benefits of oil are much more visible in the capital city area than in the smaller communities around the coast, which continue to experience economic problems and population decline. Indeed, the St. John's metropolitan area (Northeast Avalon zone) was the only part of the province to gain population from 2001 to 2006 – up 4.5 percent. More remote areas were especially hard hit. E.g., the Nordic zone on the tip of the Northern Peninsula, about 1,000 km from St. John's, declined by 12.2 percent.

Unequal negotiation: Fishers and platform construction

Of course, community sustainability should mean more than survival. In this section, I recount the experience of several small fishing communities in the early 1990s that found oil development closer to a curse than a blessing. The agreement for development of the Hibernia oilfield called for construction of a gravity-based platform. This work had to be next to deep water to permit the platform to be towed to its site.

Local inshore fishers whose long-term interests included protection of their fisheries and way of life used the chosen location, Bull Arm on Trinity Bay. Approximately 70 men fished from open boats about 7 to 10 metres long to catch lobster, cod, flounder, crab and squid, while a few with slightly larger boats seined for herring, capelin and mackerel.

How did they fare in their relationship with HMDC, the Hibernia Management Development Company led by Mobil Oil? HMDC eventually succeeded in having these fishers sign agreements that compensated them for not fishing in their traditional area. However, all was not well. After two years, a local mayor commented that, "If Hibernia left, I'd feel relieved... If it's not there, you don't expect nothing... There are so many people depressed and tormented about this that it's sickening" (quoted in Ottenheimer, 1993:198-9).

HMDC had the financial resources and skilled personnel to wield effective power over fishers of the area who hoped to preserve their way of life. They lost access to traditional grounds with limited compensation, but they did not voice opposition as HMDC shaped their sense of what they wanted. Fishers signed a contract but under conditions that distorted their understanding of their own interests. The forum for community level discussion that HMDC set up encouraged questions about opportunities for local employment and business,

whereas matters concerning the fishery and environmental impacts were kept off the agenda.

A consultant hired by HMDC to negotiate with fishers discouraged them from raising issues with the Bull Arm Area Coordinating Committee. Few knew the committee existed. Women plant workers had no voice at all, and this was encouraged by the patriarchal domestic structure. Not even their fisher spouses considered speaking for them.

HMDC controlled the setting of negotiations and fishers did not know about the early stages of planning. They believed the company's promises of employment and prosperity. After signing, most thought they had a good deal with a guaranteed income, although they were told not to discuss the terms with anyone, and HMDC's sole right to communicate about the contract was actually written into it. When conflict later emerged, this secrecy allowed others in the community to blame the fishers themselves. However, there was much pressure on the fishers:

You know we're not supposed to be talking to you about what's going on... I don't mind telling you about what's going on, but I don't want my name being used in any of this. Lord only knows what would happen if they found out (quoted in Ottenheimer 1993:155).

Initially, most fishers trusted the company: "When we signed that deal we believed them and what they were saying... I really trusted them." Yet, within a year, fishers learned that their guarantees were shaky because the final wording of their contracts was changed without them understanding that payments would end if construction was interrupted. When this did take place in 1992, after Gulf Oil withdrew from the project, fishers were shocked to discover that they had lost access to their fishing grounds along with the compensation. The secrecy strategy had worked in the interests of HMDC. One fisher put it clearly: "If we had our time back, we would have taken it (the contract) to a lawyer to look over... but we truly thought that Mobil was acting in good faith... now we know it was all a 'put on' to get us to sign." They trusted so much that they had allowed others to define their interests and rights. By 1992, fishers were much more cynical: "They don't care about the fishermen; they care about lining their pockets, that's all" (Ottenheimer 1993:156-159).

The message from this experience is that benefits can be illusions. People less skilled in law and organizational processes need trusted advisors to assist in achieving accommodation with oil development. Otherwise, small communities can become even more divided and their long-term sustainability is threatened.

Alberta's oil sands

The environmental problems connected with the development of the oil sands have been publicized on a national and even a global scale. Socio-economic

impacts are less visible and analysis of whose interests the oil sands serve is usually implicit.

The companies that extract and process oil are the most obvious beneficiaries of this development. They have access to a resource that promises profit for decades if oil stays above \$70 a barrel.

- If the companies prosper, their owners and employees can expect economic benefits.
- Individual shareholders and owners of mutual funds or pension plans that invest in these companies are beneficiaries. These networks of ownership extend well beyond Canada's borders, probably to most parts of the world.
- Similarly, owners and employees of companies that provide services or goods used in extraction, processing and distribution can expect economic gain.
- Residents of Alberta may continue to pay less tax than other Canadians as they benefit indirectly from the revenues that accrue to the provincial government.
- Consumers of energy from this source at least benefit from its availability even if the cost to them is high.

With all these beneficiaries, one might assume that the only issues to be addressed are environmental. Yet, even the former premier and promoter of Alberta's energy, Peter Lougheed, raised concerns about using increasingly scarce natural gas to extract the bitumen and about the lack of return to the provincial treasury from new projects until the costs of development have been covered. His conclusion:

I keep trying to see who the beneficiaries are. Not the people in Red Deer, because everything they have got is costing more. It is not the people of the province, because they are not getting the royalty return that they should be getting, with \$75 oil (Lougheed 2006:5).

Lougheed thought the provincial economy was overheated, that poorer people and new migrants would suffer from high costs, and that young people would abandon their education for highly paid, relatively unskilled jobs connected to oil development. In a nutshell, these are the points that other critics, usually considered political or academic radicals, have raised.

Some aboriginal people have experienced gains from oil sands development. For example, Suncor and the Fort McKay First Nation announced a joint business resources centre (Aboriginaltimes.com 2009). In 2007, more than 1,500 aboriginal people worked in oil sands production, while others were employed in construction. Moreover, companies owned by aboriginal people held contracts worth \$606 million (Alberta 2009).

Despite such gains, by the summer of 2008, chiefs from three provinces and the North West Territories, meeting at Fort Chipewyan, united in a plea to

halt further development until acceptable steps have been taken to assess the negative impacts and how to mitigate them (Henton 2008). As Chief Allan Adam put it:

We have to slow down industry to let us catch up. ... If we continue to let industry and government behave the way they've been behaving the last 40 years there will be no turnback because it will be the total destruction of the land (quoted in Henton 2008).

Their primary concerns were impacts on the water quality of the Athabasca River and the health of the people. The chiefs complained that development was moving ahead without their consent and that requests for baseline health studies were being ignored. They proposed alliances with other opponents, negotiation and legal action if necessary to protect their interests. Some months later two of these First Nations combined with Forest Ethics environmental group to place a full page advertisement in *USA Today* in which they argued against continued development of Canada's "dirty oil" (CBC 2009).

Apart from aboriginal people, many other residents of northern Alberta, even those who earn high incomes, have reservations about the social costs of rapid development. As indicated in "Boomtown hustles to keep up with breakneck growth," written just before the downturn of 2008, the economic gains in Fort McMurray are tempered by high costs of housing and services.

The Canadian North

Nunavut alone is estimated to contain about 11 percent of Canada's oil reserves and 20 percent of its natural gas, but the main area of interest is in the sedimentary basin of the MacKenzie delta and western Beaufort Sea (Voutier et al. 2008). All these resources are expensive to develop and lie in an inhospitable, fragile environment. Exploration promoted by the interventionist strategy of the federal government in the 1970s and early 1980s was responsible for discovery of most of these northern resources. However, with the end of exploration incentives and lower prices in the later 1980s, almost all drilling stopped until the early years of the present century. But I am too far ahead in the story.

With the settlement of some important land claims and devolution of governance in various degrees to the Yukon, the Northwest Territories, and Nunavut, responsibility for development is now more complex, but the federal state still plays an important role. Thus, the federal Department of Indian Affairs and Northern Development retains control over oil and gas management for the NWT and for all offshore areas.

Aboriginal people are a majority of Canada's northern inhabitants and their interests are critical to evaluating the impacts of various forms of resource extraction. Much of this story is about resistance until the conditions of development meet the perceived needs of northern residents. Thus, the organization and activities of aboriginal peoples, aided by environmentalists and

sometimes by the state, limited the freedom of private capital to develop the industry for 40 years.

Today, all northern development goes through stages of public consultation, environmental review and social assessment that are required by law. Federal and corporate powers remain central to what happens, but it is impossible simply to ignore aboriginal and territorial interests.

In 2004, the Inuvialuit Game Council made the important point that approvals for individual projects may mask the environmental and social impacts of the total development process. Thus, the Council recommended that a strategic regional plan be produced for the Beaufort Sea, which the federal government set in motion with participation from communities, industry and various levels of government (Voutier et al. 2008:108-109). This proved to be a slow process.

In April 2008, the report appeared, advocating various forms of collaboration among interested parties, incorporation of traditional knowledge into the planning processes, and careful monitoring of the environmental and socio-cultural impacts of development according to an agreed set of indicators. This report formed part of the input into an integrated management process for the Beaufort Sea as announced in 2009 (Beaufort Sea Partnership Newsletter 2009).

The goal for the Beaufort Sea integrated management planning process is to have an effective, collaborative process that provides integrated and adaptive management plans, strategies and actions for ecosystem, social, economic, and institutional sustainability. A collaborative process is an open, inclusive and transparent planning, advisory and decision-making process involving all interested and affected parties (Beaufort Sea Partnership 2009).

This inclusive approach is inevitably slow, but it offers some hope that the interests of the people who live in the six communities that border the Sea will be considered, if not necessarily fully protected. Cases such as the fishers of Bull Arm show that power differences can still result in manipulation of sentiment leading to decisions that do not fit the interests of weaker participants.

In 1974, opposition to a pipeline from the Mackenzie delta to northern Alberta led to the federal Berger Inquiry, which held hearings where radically different views were presented. Northern business people looked to economic opportunities, while whole communities of aboriginal people feared the end of their way of life. Reporting in 1977, the Inquiry's core recommendations were that no pipeline be built for at least 10 years and not before the settlement of land claims. This reflected judge Berger's view that any pipeline should benefit northern residents, including protection for the cultures of northern indigenous people. Moreover, in no circumstances were critically important habitat areas to be disturbed (Bankes and Wenig 2005).

With sufficient protection for the environment and a land claims agreement in place, the economic stimulus and royalties from oil and gas development look attractive to many. Some people view such development as an opportunity to escape from dependency and economic colonialism. These include Floyd Roland, the NWT premier, who, in 2009, linked the pipeline with community sustainability: "We need to build an economy to build sustainable communities... You can have the rest of Canada helping us through transfer payments, or you can have the rest of Canada be partners with us in developing a stronger economy" (quoted in McCarthy 2009).

Although some northern residents, especially those who hope for more business, favour development, opposition also exists and the necessary pipeline remains only a plan. The proposal involved Exxon, Shell, ConocoPhillips and the Aboriginal Pipeline Group (backed by TransCanada Pipelines) that represented the Inuvialuit, Sahtu and Gwich'in peoples. The revival of interest in a new MacKenzie Valley proposal in 2004 resulted in extensive long-term consultations (CBC News 2007). The consultation process ended in December 2007 after years of work by a Joint Review Panel, but its report to the National Energy Board was delayed until December 2009 (Jones 2009). Although the Board did finally approve the project in December 2010, natural gas prices no longer make the huge investment sufficiently attractive for immediate action and Imperial Oil has requested three years to make up its corporate mind.

Frustrated companies stopped drilling while the review process was underway. Some commentators believe that the partners will not invest the necessary \$16.2 billion as long as the price of natural gas remains low and government does not step in with financial support, especially considering the revival of a plan for a competing Alaska pipeline, which might be operational in 2018 (Jones 2009). For example, a Calgary company manager complained that, "For this thing to go, the government is going to have to step forward with great wads of cash - many billions of dollars" (McCarthy 2009).

Keeping the northern gas in the ground until the interests of northern community residents are clarified and protected makes social and environmental sense, but I think these communities will continue to change with or without a gas pipeline. If they are sustained, it is likely to be in the limited sense of continuous residence.

Conclusion

What are the policy implications for community sustainability? Is oil and gas development a curse or a blessing for community sustainability?

Some thoughts from these cases:

1. The answer often depends on the scale of the unit on which we focus.
2. Individuals are **not irrelevant** to outcomes, **but context** is usually more important.

3. *It's only a blessing if regional authorities hold back their signatures until they have secured sufficient income to provide long-term development support for communities – but*
 - a. This requires suitable external pressures on companies.
 - b. A coherent investment plan for economic diversification and provision of services.
4. Small groups with few financial resources and organizational skill need special protection that starts with, but should not be restricted to formal avenues for participation. *Make sure that community members really understand what is happening.*
5. *Keep the pace slow and limit accumulation of problems*

Remember that corporate managers are under stress to demonstrate success as profit makers in the first instance. *Trust is rewarded only in the easy times.*

References

- Alberta. 2009. Facts about Aboriginal People in Alberta. Edmonton: Government of Alberta, Department of Aboriginal Relations.
<http://www.aboriginal.alberta.ca>.
- Baird, M. 2002. Hebron Shelved – For Now. *The Telegram* (St. John's, NL). February 14.
- Baird, M. 2006. Negotiate, NOIA Says. *The Telegram* (St. John's, NL). June 22.
- Bankes, N., and M.M. Wenig. 2005. Northern Gas Pipeline Policy and Sustainable Development, Then. And Now? In *Canadian Energy Policy and the Struggle for Sustainable Development*, ed. G.B. Doern, 246–71. Toronto: University of Toronto Press.
- Beaufort Sea Partnership Newsletter. 2009. Vol. 1, no.4.
- Beaufort Sea Partnership. 2009. Integrated Management in the Beaufort Sea: A Brief Overview. Available online.
- Cattaneo, C. 2007. Why Did Big Oil Cave on Hebron? Hibernia South Played Key Role in Deal Going Forward. *Financial Post*, August 28.
- CBC News. 2006. Williams Chafed by PM's Stance on Oil Standoff. 8 September.
- CBC News. 2007. The MacKenzie Valley Pipeline. 31 December.
- CBC News. 2009. Alberta First Nations Place Anti-oilsands Ad in Major U.S. Paper. 17 February.
- Chevron. 2006. Chevron Announces Plans to Suspend Hebron Activities. 3 April.
- Chevron. 2007. Annual Report. <http://www.chevron.com/annualreport/2007>.
- Gray, J. 2008. That's Danny Billions to You. *Globe and Mail*, 25 January.
- Henton, D. 2008. First Nations Unite to Fight the Tar Sands. *Edmonton Journal*, 19 August.
- Jackson, C. 2006. Door always Open. Room for Future Talks on Hebron-Ben Nevis: Premier. *The Telegram* (St. John's, NL), April 11.
- Jones, J. 2009. Economics, Politics Chill Mackenzie Pipeline Dreams after Decades. *Globe and Mail*, 9 December.
- Lougheed, P. 2006. Interview with Peter Lougheed: Sounding an Alarm for Alberta. *Policy Options*, September 5–9.

- McCarthy, S. 2009. In Mackenzie Valley, Frustration and a Sense of Foreboding. *Globe and Mail*, 30 August.
- Ottenheimer, S. 1993. Fish and Oil Don't Mix: Power Relations at the Bull Arm Construction Site, Trinity Bay, Newfoundland. MA thesis. Memorial University, St. John's, Canada.
- Pratt, L. 1976. *The Tar Sands: Syncrude and the Politics of Oil*. Edmonton: Hurtig.
- Voutier, K., B. Dixit, P. Millman, J. Reid, and A. Sparkes. 2008. Sustainable Energy Development in Canada's Mackenzie Delta-Beaufort Sea Coastal Region. *Arctic* 61 (supp. 1):103–10.