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# **Submission to Atlantic Energy Roundtable II**

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From Regulatory Issues Steering Committee & Industrial  
Opportunities Task Force

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**October 31, 2003**

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### 1.0 INTRODUCTION

On November 22, 2002, twenty-five CEOs from the oil and gas industry (including operators and supply and service companies) joined four federal Ministers<sup>1</sup> and three provincial Ministers<sup>2</sup>, to discuss the issues and opportunities of Atlantic Canada's petroleum industry. The importance of the oil and gas industry to the economic health, growth and diversification of the Atlantic region has been underscored over the past year by the level of commitment of Ministers, senior industry and government officials. The first Atlantic Energy Roundtable (Roundtable) established two groups. The Regulatory Issues Steering Committee (Steering Committee)<sup>3</sup> was to recommend improvements to the regulatory system. The Industrial Opportunities Task Force (Task Force)<sup>4</sup> was to address issues of continuous improvement and increased business capture of the resident supply and service companies in an effort to optimize economic impact on the Atlantic region and the country as a whole. Both Groups were asked to report back at Atlantic Energy Roundtable II (Appendix I).

The Atlantic oil and gas industry is still relatively young and the region largely unexplored. There are three operating projects and two developments underway. The industry is delivering significant benefits to the region with expenditures of over \$16 billion in actual and expected spending (1991-2006) in engineering/ procurement/ construction, operating activities. Many Atlantic Canada businesses participate in, and have benefited from, this investment. Over 12,000 jobs have accrued to date in the region from oil and gas activities. A significant number of companies have leveraged the skills and abilities acquired locally into global oil and gas opportunities.

A key to increasing regional benefits accruing from the oil and gas industry is to attract additional capital investment from existing players and new entrants. New capital investment is attracted by a number of factors including the quantity of the hydrocarbon resources and the relative cost structure of the Atlantic industry. The latter issue has been a focus of both processes established by the Roundtable. For the Steering Committee this has meant identifying opportunities to streamline and improve the effectiveness of the regulatory environment. For the Task Force this has meant identifying opportunities to grow a competitive local supply and service industry.

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1 Federal Ministers included Hon. Herb Dhaliwal, Minister for Natural Resources Canada, Hon. Gerry Byrne, Minister of State for the Atlantic Canada Opportunities Agency, Hon. Alan Rock, Minister of Industry Canada, and Hon. Robert Thibault, Minister of Fisheries and Oceans.

2 Provincial Ministers included Hon. Gordon Balse, Minister of Energy, Province of Nova Scotia, Hon. Lloyd Mathews, Minister of Mines and Energy, Province of Newfoundland and Labrador, Hon. Jeannot Volpé, Minister of Natural Resources and Energy, Province of New Brunswick.

3 It consists of senior officials from governments, offshore regulators, industry and associations, and is chaired jointly by Natural Resources Canada, the Province of Nova Scotia, and the Province of Newfoundland and Labrador.

4 It consists of senior officials from governments, industry and associations, and is chaired by Newfoundland Ocean Industries Association.

## 2.0 VISION AND PRINCIPLES

Steering Committee and Task Force participants are committed to the development of Atlantic Canada's offshore energy resources in a safe, economically competitive, environmentally and socially responsible manner to the mutual benefit of all stakeholders.

Our vision for the future is a growing offshore oil and gas industry maximizing its contribution to the economic well being of the region.

Steering Committee and Task Force participants worked under principles that demonstrated a common desire for sustainable development in a socially responsible manner, transparent decision-making and open communication between governments, regulators, and industry. All stakeholders voiced their commitment to competitiveness in the market place, consistency and predictability within the regulatory framework, coordination of legislation related to offshore Atlantic Canada and collaboration on growing the industry for the benefit of the region and Canada.

## 3.0 GOING FORWARD

### 3.1 *Atlantic Energy Roundtable's First Success: Enhanced Coordination, Communication and Information Sharing*

Exploring for offshore oil and gas resources and developing infrastructure to bring them to market takes place in a complex marine environment. In Canada, the federal-provincial interests combined with high standards on ocean management and protection results in a regulatory and policy environment, which has many interested stakeholders and requires significant coordination. In Atlantic Canada, the supply and service community looks to the oil and gas industry for opportunities to grow and diversify, which also requires coordination and collaboration.

Taking full advantage of the opportunities found in the development of Atlantic Canada's hydrocarbon resources requires effective working relationships among governments, regulators and industry. The willingness to engage in timely and constructive dialogue on topics of common interest for projects as well as general industry matters is critical to the evolution and growth of the industry.

Steering Committee and Task Force participants do recognize the need for enhanced coordination; communication and information sharing on a continuous and formalized basis to achieve sought after clarity, certainty and predictability. That dialogue has already started and should be encouraged to continue.

### 3.2 *Commitment to the Process*

Continued and substantive success requires the ongoing commitment of all: industry, regulators and governments.

### 3.3 *Proposed Post-Roundtable II Structure*

The work of the past year has clearly demonstrated that many of the issues examined by the Task Force and Steering Committee are intertwined. Resolution of these issues requires coordination, communication and information sharing over the broader range of participants and collective effort on many of the issues. There is also a requirement for further collaborative efforts in research, specialized consultations, workshops and forums. In addition, there is merit in linkages and dialogue with emerging offshore areas in Atlantic Canada. These efforts need to be supported and funded by Roundtable participants.

#### **RECOMMENDATION**

- **The Atlantic Energy Roundtable continues to address the issues and opportunities included in this report.**
- **The Regulatory Issues Steering Committee and the Industrial Opportunities Task Force be merged to create a single body for Roundtable work.**
- **The initial tasks of this body will be to establish the organizational structure and accountabilities, set priorities, establish a budget and secure resources.**
- **This Roundtable process be supported by an industry and government-funded secretariat to co-ordinate administrative functions of the group, budgeting and formal record-keeping as well as managing consulting contracts.**

## 4.0 **REGULATORY ISSUES STEERING COMMITTEE REPORT AND WORKPLAN**

### 4.1 *What Does Success Look Like and How Do We Get There?*

The success of the Roundtable will be measured by our ability to implement the identified changes that must be in place to realize our common vision.

In order to compete for international capital, Atlantic Canada must have a regulatory process that is clear, predictable, efficient, and effective, while supporting the principles of sustainable development. It is fully recognized that around the world, governments are streamlining regulatory processes as one means of attracting energy investments. One of the key drivers for attracting capital is the time it takes to gain regulatory approvals (regulatory cycle time). All efforts must be made to ensure that regulatory cycle times for offshore oil and gas projects meet or improve upon those in other jurisdictions. Equally significant for Atlantic Canada is the need for exploration costs to be competitive with other jurisdictions.

The Atlantic Energy Roundtable has been a significant first step in a process for governments and industries to address these matters. The Roundtable will serve as an ongoing forum for strategic coordination and communication to ensure that matters affecting investment in the offshore will continue to be addressed as they emerge.

#### **4.2 Preliminary Work**

After a preliminary review of the issues put before Roundtable I in 2002, the Steering Committee focused on three principal areas within the regulatory framework:

1. The need for clarity, certainty and predictability in the regulatory framework to the benefit of operators, regulators and the public;
2. The need for regulatory cycle times to be at least comparable with competing international jurisdictions; and
3. The need to achieve cost savings, especially for exploration drilling, while maintaining Canada's environmental and safety standards.

To validate some of the challenges put before Roundtable I within these areas, the Steering Committee commissioned two studies and held a two-day workshop (summaries contained in Appendix 2) with many stakeholders:

1. Gaffney, Cline & Associates (GCA) was commissioned to perform a review of the regulatory cycle times for certain offshore petroleum areas. In its report, GCA assesses cycle times and regulatory characteristics in the United States' Gulf of Mexico, Australia, and the United Kingdom and Norwegian sectors of the North Sea.
2. The Lesson Learned Workshop (Halifax, June 2003) (moderated by Robert Walden & Associates) brought together individuals from governments, regulators and industry to explore opportunities for process improvements. Workshop participants reviewed the issues of regulatory and legislative overlap and

duplication, environmental assessment processes, and industry standards. Action plans were developed within these broad categories.

3. *Challenges and Opportunities for Regulatory Effectiveness in the Offshore Accord Areas of Nova Scotia and Newfoundland and Labrador*, Erlandson & Associates and Petroleum Research Atlantic Canada (August 2003). This report documents the regulatory challenges and opportunities facing agencies, boards, and industry; this study builds on the work completed for the initial Regulatory Roadmap project - *Guides to Oil and Gas Approvals* (2002).

Findings are reported in the relevant issue areas and in summary in Appendix 2. The primary focus of the Steering and Working Committees over the past ten months has been, using these studies and other research, to clearly define the challenges and opportunities for improvement, to reach consensus on individual areas of focus and work (reflected in Working Papers in Appendix 3), and to address areas that would bear immediate returns.

**4.3 Issue Matrix and Workplan**

The following issue matrix outlines the work tasks identified by the Regulatory Issues Steering Committee. The matrix is the result of careful consideration of the Steering Committee’s commissioned work and ongoing Steering Committee deliberations. It is a consensus position.

The tasks are organized by the principal areas of focus outlined above. The tasks are further classified by "Work in Progress" and "Proposed Work". The work in progress is expected to take the least amount of time to complete. Proposed work, on the other hand, is considered to be more substantive and/or complex and may require additional study. All tasks have an associated Working Paper (WP), which is referenced.

<b>In Progress and Proposed Work of Regulatory Issues Steering Committee</b>			
<b>Creating a system that is clear, certain, predictable</b>		<b>Reducing cycle time</b>	<b>Achieving cost savings</b>
<b>Work in Progress</b>	<ul style="list-style-type: none"> <li>• Foreign worker approvals (WP 3)(ECD<sup>5</sup>: Q4/03)</li> <li>• EA Scoping MOU (WP 4) (ECD:2004)</li> <li>• EA Guidelines and Standards (WP 4)(ECD:2004)</li> <li>• Federal Coordination MOU (WP 4)(ECD:2004)</li> <li>• Early Release of EH&amp;S Data (WP 5)(ECD Q1/04)</li> <li>• EA for exploration wells (WP 6) (ECD:2004)</li> <li>• Regional EA (WP 7)(ECD: 2004)</li> </ul>	<ul style="list-style-type: none"> <li>• Sharing Regulatory Query Forms (WP 8)(ECD: Q4/03)</li> </ul>	<ul style="list-style-type: none"> <li>• Offshore Exploratory Well Costs (Appendix 4)</li> </ul>
<b>Proposed Work</b>	<ul style="list-style-type: none"> <li>• Eliminating Duplication and Overlap on Offshore Pipelines and Onshore Gas Plants (WP9 and WP10)</li> <li>• Development approval process model- Generic MOUs (WP 11)</li> </ul>	<p><i>Modernizing the Regulatory System</i> (WP 13)</p> <ul style="list-style-type: none"> <li>• Concurrent regulatory approvals (WP 12)</li> <li>• Performance-based regulation (WP 13)</li> <li>• Use of certifying authorities (WP 14)</li> <li>• Enhanced communication (WP 2)</li> </ul>	<p><i>Using International Standards</i></p> <ul style="list-style-type: none"> <li>• Rig (MODU) Certification (WP 15)</li> </ul>

<sup>5</sup> Expected Completion Date



**4.3.1 Work in Progress includes:**

- Eliminating duplication and overlap between the Canada-Nova Scotia Offshore Petroleum Board and federal government in the processes for foreign worker approvals (WP 3)
- Establishing an MOU on the coordination of regulatory processes to clearly define roles and responsibilities (for Canadian Environmental Assessment Agency, Department of Fisheries and Oceans, Environment Canada) in the EA progress to streamline approvals and to eliminate possible duplication and overlap (WP 4)
- Standardizing the typical information requirements of environmental assessments for exploration and development to provide clarity and certainty and reduce cycle times (WP 4)
- Working with operators to determine if and how additional environment, health and safety data might be made available to the public (WP 5)
- Activating the database developed by members of the Canadian Association of Petroleum Producers for sharing of RQFs to reduce duplication of work for operators and the Boards, and to reduce cycle time (WP 8)

Other relevant work in process outside the Roundtable:

- A subcommittee of Canadian Environmental Assessment Agency's Regulatory Advisory Committee is examining the regulations under the *Canadian Environmental Assessment Act* related to offshore oil and gas activities including seismic. Particular attention is being given to comprehensive study requirements for exploratory wells (WP 6) and the potential for regional or strategic environmental assessments (WP 7) to improve the effectiveness of environmental assessment. Positive outcomes in these areas would reduce costs, and build certainty into the regulatory system.
- The Canada-Nova Scotia Offshore Petroleum Board is addressing ultra-deepwater costs through an initiative, within its mandate under the existing legislation, that looks at disposal of structures and testing which will bring Nova Scotia more into line with practices in other ultra-deepwater areas. (Appendix 4)

**RECOMMENDATION**

**The Atlantic Energy Roundtable supports the completion of the work in progress.**

### 4.3.2 *Proposed Work*

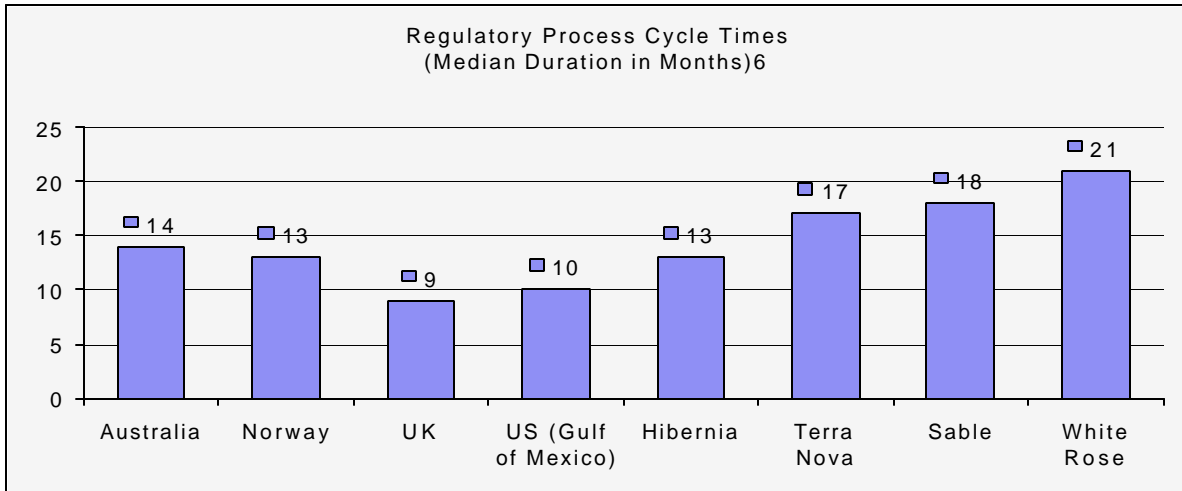
The key longer-term initiative is to modernize the regulatory approval process through (1) concurrent approval processes and (2) consideration of performance based regulations.

#### Modernizing the Regulatory System

The Gaffney, Cline & Associates review of the regulatory cycle times for certain offshore petroleum areas identified opportunities for improvement in Atlantic Canada and each of these opportunities are addressed in this report.

Gaffney Clines' principle findings include:

- Despite the increased attention given to environmental aspects and increasing involvement from sectoral stakeholders, there is evidence that cycle times elsewhere are compressing and will continue to compress in all areas studied.
- An emerging area of competitiveness is the way governments/regulators administer and regulate through the entire life cycle of petroleum activities; an effective and efficient regulatory environment is critical to attracting international investment for oil and gas development.



- The cycle time in Atlantic Canada is longer than in many other international jurisdictions with whom we compete for capital.<sup>6</sup> Reduction in cycle times has been achieved in other jurisdictions through concurrent regulatory processes, enhanced communication, use of International Standards and performance based regulations, and plain old experience.

Each of these areas is addressed. In particular:

1. Parallel/concurrent approval processes; i.e. environmental assessment and regulatory review conducted concurrently and jointly, or devolved to a single regulatory agency. (WP 12)
2. Frequent and informal communication between the project proponent and the regulator/governments, in advance of a formal application submission. (WP 2)
3. International Standards: Increased reliance on the use of common standards. (WP 13)
4. Performance-based Regulations: Increased orientation from prescriptive towards performance-based regulatory practices. (WP 13)
5. Experience: Increased familiarity and comfort that comes with processing more applications.

<sup>6</sup> The task of comparing the median regulatory cycle times of more than 150 international projects with 4 east coast projects is difficult. It is recognized that more mature offshore areas started out with longer cycle-times and even today, the variance in specific project approvals can be significant. In addition, the White Rose Project timeline includes seven months related to its Comprehensive Study Report. Nevertheless, the median times are an important benchmark when it comes to international investment decisions.

### 4.3.3 *Concurrent Approval Processes*

International and east coast experience has demonstrated that concurrent, rather than sequential, environmental and development project applications materially reduce cycle time for project approvals. The Regulatory Issues Steering Committee concludes that establishing a clear and predictable regulatory process that reduces cycle times for future offshore oil and gas projects in Atlantic Canada is critical, in order to continue to attract investment.

The 2004 Workplan will include a workshop with key regulatory stakeholders including the Offshore Boards, Department of Fisheries and Oceans, Environment Canada, Natural Resources Canada, Nova Scotia Department of Energy, Newfoundland Department of Mines and Energy and industry to explore issues and elements of a coordinating MOU to facilitate concurrent evaluations. A critical component of this MOU will be to define the linkages between and among Laws of General Application such as the Oceans Act, Canadian Environmental Assessment Act, Species at Risk Act, Fisheries Act and Navigable Waters Protection Act, and the regulatory requirements of the Offshore Boards.

Equally important will be to explore the role of frequent and informal communications with regulators as well as the nature and extent of information submitted in applications.

#### **RECOMMENDATION**

The Atlantic Energy Roundtable supports the completion of the proposed work, and that priority be given to the development, of a clear and predictable process which will result in the concurrent review of environmental assessment and other regulatory matters for future offshore oil and gas projects - with the objective of reducing project cycle times.

#### 4.3.4 *Performance Based Regulations*

The regulatory system offshore Atlantic Canada is largely prescriptive in nature, meaning that regulations specify the means of accomplishing a regulatory goal, and precisely how it is to be accomplished. As such, the system is unable to quickly adapt to technological change and, in some cases, is unable to continually amend the regulations to accommodate best practices and lessons learned from other jurisdictions.

Regulators around the world are moving to alternate approaches such as performance-based regulation (PBR). International jurisdictions including the U.K., Norway and Australia have implemented PBR for certain regulations - for example in the UK, PBR was introduced to enhance safety of operations following the Piper-Alpha incident. As a result industry and regulator efficiency has been increased without diminishing the safety of operations and their global competitiveness has been improved. At home, the National Energy Board has moved and continues to move toward goal oriented or performance-based regulation as a means of facilitating innovation and competitiveness.

#### **RECOMMENDATION**

**The Atlantic Energy Roundtable supports the Steering Committee undertaking further research to determine whether the performance-based approach to regulation is suitable and optimal for any or all the regulations that govern the Atlantic offshore; the study will also document the expected impact the adoption of PBR might have on industry, regulators, governments and the public.**

## 5.0 INDUSTRIAL OPPORTUNITIES TASK FORCE

The Task Force was comprised of representatives from the operators, federal and provincial departments, suppliers and industry associations. The following is the Task Force's consensus report.

### 5.1 *What does success look like and how do we get there?*

A growing Atlantic oil and gas industry with continuous activity in all phases (exploration, development and production) contributing to the economic development of the region that is characterized by:

- Increased offshore petroleum activity on the East Coast;
- Increased capability, capacity and participation levels of supply and service companies in the East Coast petroleum activities;
- Continuous improvement in processes and knowledge supporting the competitive position of East Coast petroleum activities; and
- Research and Development (R & D) activities aligned to the priority needs of the petroleum industry and its key stakeholders and an R&D community capable of meeting those needs.

### 5.2 *Preliminary work*

- The Task Force seeks to increase investment in the region and increase level of local opportunities and activities related to the offshore oil and gas industry.
- The Task Force's first accomplishment was the open communication between stakeholders, which led to an understanding and appreciation for each party's perspective.
- The past seven months has been dedicated to completion of the 2003-work plan. three key sub-committees supported the work of the Industrial Opportunities Task Force-Supplier Development, Research and Development and Monitoring and Reporting.

- The purpose of the Supplier Development Committee is to better understand how Atlantic Canadian businesses are currently engaged in the supply and service of the offshore, what opportunities exist in the future for those businesses, the strengths and challenges inherent in Atlantic Canada's market place, and to map out optimal regional capture strategies.
- The Research and Development Committee was tasked with identifying petroleum related R & D priorities in Atlantic Canada, and the development of a strategy to best address these priorities
- The Monitoring and Reporting Committee was tasked with identifying and documenting various stakeholders' issues with the current "benefits" monitoring, reporting and measurement process. It also considered related information needs and the best means of obtaining the information.

### **Accomplishments**

The Task Force has completed a current state assessment which has given all stakeholders a better understanding of regional capacity and competitive strengths, and identified areas of opportunity to grow local participation.

Lessons learned workshops held in St. John's and Halifax generated practical solutions to challenges within the industry's procurement process. Workshop participants shared ideas to improve the number and quality of bids submitted by local suppliers. Some suggestions from this process included better communication of upcoming opportunities and an improved debrief process for unsuccessful bidders.

A local supplier survey provided a better understanding of best practices employed by successful bidders. This will be used by the industry associations to assist their members. The Supplier Development Committee in turn generated several guidelines, templates and supporting documents for the purposes of sharing business processes and strategies with the Atlantic Canadian business community.

Undertook a fact finding mission to the United Kingdom (UK) to better understand the benefits derived from an established supplier development initiative.

The R & D Committee produced a large volume of information that documents industry's R & D needs, R & D underway in Atlantic Canada, R & D institutions, funding, partnering models and international programs relevant to Atlantic Canada.

All stakeholders agreed that the recommended Supplier Development Initiative (see following recommendation section) and improved coordination of R&D efforts would better position local firms for offshore related business both here in Canada and around the globe.

The current benefits monitoring and reporting process was also examined and the Task Force has recommended that improvements be considered to the way benefits data is collected and tracked, addressing concerns regarding paper burden and quality of data.

### **5.3 *Task force work in progress***

(The following items are also anticipated elements of proposed work plans for 2004.)

Work in progress includes:

- Development of workshop and communication program to share lessons learned on (i) procurement and marketing, (ii) quality, health, safety and environment systems, (iii) bid evaluation, debriefing and post contract feedback, and (iv) partnering and joint venturing.
- Development of workshops, targeted at stakeholders and funding bodies, focused upon R & D in Atlantic Canada including: exchange of R & D ideas based on geographic and development scenario needs; semi-annual priority setting which emphasizes “useability” and, increasing the value of research investments and funding.
- Data on Atlantic Canadian companies’ participation in offshore oil and gas activities will be organized into meaningful value chain categories for exploration, development and production phases. The data gathering process disclosed numerous ideas on future supply and service opportunities. These opportunities will be collated for later analysis.
- Continued collation of data relating to Atlantic Canadian R & D initiatives and funding of projects over the last five years.

### **5.4 *Proposed Work***

*The key findings and recommendations of the sub-committees follow.*



### 5.4.1 *Supplier Development*

The work completed and in progress has clarified the importance of an on going collaborative initiative to achieve the longer-term goals of continuous improvement and expanded capability and opportunities of the supply and service sector.

It is therefore the Task Force's recommendation that the Roundtable implement processes relating to identification of new products and services to the region, continued opportunity generation, and supplier continuous improvement as part of a Supplier Development Initiative. The Supplier Development Initiative will also include: specific deliverables such as workshops and communication programs identified under work in progress above; a technology transfer case study and lessons learned analysis to lead to expanded capability in the region; and a comparative analysis of costs of safety, health and environmental procedures relating to representative major fabrication work in selected competing jurisdictions.

#### **RECOMMENDATION**

- **That a Supplier Development Initiative be established with a process for supply chain development relating to opportunity generation and continuous improvement. The initiative will focus upon growth of capability as well as continuous improvement.**
- **That the Supplier Development Initiative be supported by:**
  - a. **Offshore petroleum operators' participation in service and supplier development initiatives with a focus on early tangible results. This process will continue to avail of the benefits of collaboration.**
  - b. **That Atlantic Canada's oil and gas industry stakeholders move towards formalized cooperation on a Supplier Development Initiative tailored to the East Coast circumstances of supply chain management; and**
  - c. **Creating a Supplier Development Group to develop, implement, oversee and provide quarterly progress reports on the Supplier Development Initiative to the merged Task Force-Steering Committee.**

The work plan of such an initiative would include, but is not limited to:

- The data gathering process disclosed numerous ideas on future supply and service opportunities. These opportunities will be collated for later analysis. Opportunity lists will be reviewed and updated periodically;

- That the East Coast offshore operator and contractor community undertake annual joint briefings of the local supply and services community based on a format developed from lessons learned in the UK and other jurisdictions;
- That a communications plan be implemented, targeted at the supply and service sector, and relating to ongoing distribution of procurement strategy (best practices of procurement and marketing, quality, health, safety and environment systems, key success factors, etc) and process information (procurement cycle, bid evaluation models, de-briefing, etc);
- That a template be developed that can be used by operators and major contractors to align themselves relative to the importance of the bid debriefing process and post contract reviews. The process that emerges on debriefing will be focused upon improving effectiveness of the process;
- That supporting initiatives be targeted at improving Atlantic Canada's offshore petroleum supply and service community's understanding and ability to deal with pre-qualification and request for proposal requirements for bids supporting offshore petroleum activities.
- That the 2001 study titled "Atlantic Canada Oil and Gas: Technology Transfer and Service and Supply Capabilities" completed by PricewaterhouseCooper be updated with additional case studies and lessons learned.
- The expanded study will consider the linkages between technology transfer, research and development and education and training and provide a better understanding of the relationships between them and how they impact on the capabilities of the service and supply sector.
- That ACOA and Industry Canada engage KPMG to expand their Competitive Alternatives study to include a review of Atlantic Canada's offshore oil and gas sector.
- That information and networking sessions on joint venturing/partnering opportunities be offered to Atlantic Canadian supply and service sector companies.
- That the 2004 Work Plan include a comparative analysis of costs of safety, health and environmental procedures relating to representative major fabrication work in selected competing jurisdictions.

#### **5.4.2 *Research And Development***

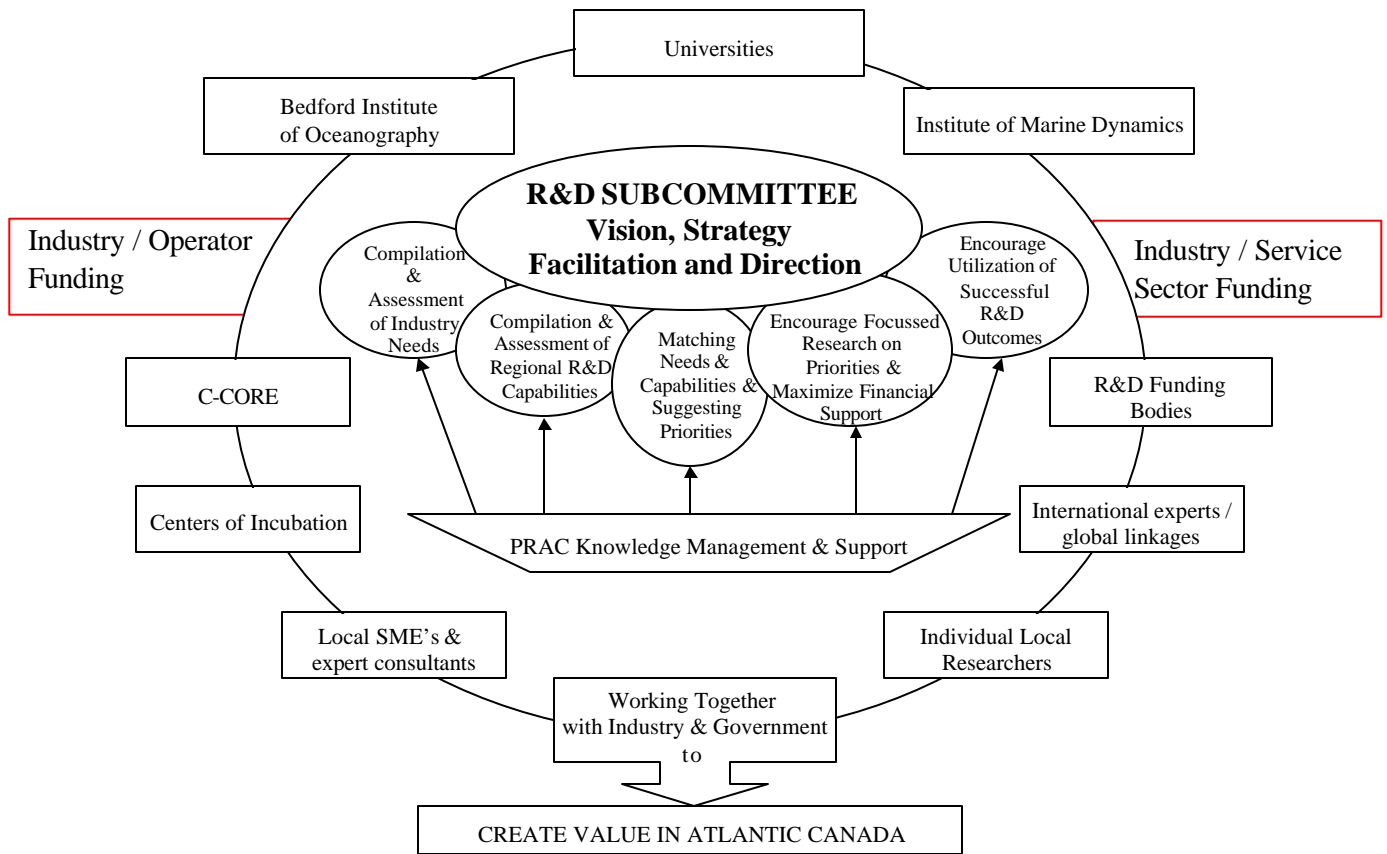
The R&D Sub-Committee found that the advent of development of oil and gas assets in Atlantic Canada has led to the generation of needs for R&D and the confidence of researchers in undertaking the R&D.

Petroleum related R&D has clearly increased from the period 1997-2002 with major new funding coming from oil company operators and service companies and from governments under such initiatives as the Atlantic Innovation Fund.

The Atlantic Region has capable petroleum related R&D capacity that is increasing and can continue to be built up.

Greater communication of the positive benefits of petroleum related R&D is needed both as a separate activity and, potentially, as a part of an overall communications plan.

Focusing of available resources on specific needs and priorities (to be determined) is recommended. Synergy will be achieved by greater collaboration regionally, nationally and internationally.



**Figure 1 – Vision for Development of an effective Petroleum Related R&D Strategy**

**RECOMMENDATION**

**The R&D Sub-Committee should remain in place with its main task to prepare a strategic, petroleum related, research and development plan. The plan should identify needs, match them with capabilities and set priorities that will add greatest value to the region in the short, medium and long terms.**

**5.4.3 DEVELOPMENT OF EXPLORATION ATTRACTION STRATEGY AND APPROACH**

Sustained activity is a key ingredient to improving the industrial opportunities of the region. There are several pillars on which this can be built. One such pillar is exploration attraction. The Task Force believes that it is of great importance that the pace of activity in the Atlantic Offshore be increased through increased exploration in the region. To accomplish this, resourcing of the region's exploration attraction strategy is vital. An issue paper has been prepared on this topic.

Also important to exploration attraction is the cost of exploration. Two areas that have bearing on costs and that are under consideration by the federal government are: duty remission on Mobile Offshore Drilling Units (MODUs) and changes to tax rules relating to investment tax credits. Canadian Association Petroleum Producers (CAPP) and Canadian Association of Oilwell Drilling Contractors (CAODC) have approached the federal government for consideration of duty remission on MODUs. Bill C-48 - An Act to Amend the Income Tax Act (natural resources), is now before the House of Commons. The tax amendments proposed in the Act are generally favourable to the petroleum industry in Canada but have an unintentional negative impact on Atlantic Canada projects in particular due to the economic impact of losing a resource allowance provision in favor of royalty deductibility. Issue papers have been developed on both issues.

**RECOMMENDATION**

- **That the 2004 Work Plan include the development of a regional exploration attraction marketing plan, strategy and supporting tools targeted at increasing offshore exploration activities in Canada's East Coast. This plan will draw on lessons learned from other jurisdictions and will focus on how to stimulate upstream investment and encourage new operators to invest in the region.**
- **That continued effort is made to improve the cost of exploration including consideration of duty remission on Mobile Offshore Drilling Units and the impact on offshore drilling costs introduced by Bill C-48.**

#### **5.4.4 *Monitoring and Reporting relating to Offshore Exploration, Development and Operations***

Monitoring of benefits activity in the offshore area, as currently practiced by regulators in Newfoundland and Labrador and Nova Scotia, has evolved over time. The Boards measure operators' compliance to benefits plans and to the legislation. The measurement of benefits provides an indication of the effectiveness of the approved Benefits Plans as employed by the operators. Benefits monitoring practices with respect to reporting employment, contracting, procurement, expenditures and project activities were important focus areas in developing guidance for operators. Comprehensive guidance for reporting purposes has been provided to operators by regulators since the mid-80s. The Boards indicate that operator compliance with established guidance has been positive in that time.

The Offshore Boards distribute various benefits reports to the federal and provincial governments, which provide valuable information for the purpose of strategic planning and policy development. The information is used to assess the state of offshore development, its issues, and its opportunities. The reports are also used to ensure that benefits objectives, as described by operators, are implemented and the approaches employed are effective and consistent with the objectives of the Accords legislation.

The issues identified by the monitoring and reporting fall into three categories:

- The first focused on efficiency of the current measurement system.
- The discussions around efficiency focused both on what is reported and how it is reported.
- The second encompasses issues related to measuring results and interpreting these to the broader public.
- The third focuses on monitoring.

The provinces (NS and NL) point out that monitoring of benefits enables them to (1) verify that the requirements under the Accord Act that insure local companies and residents receive "First Consideration" and "Full and Fair Opportunity" to compete in the supply of goods, services and employment are met; (2) identify business development opportunities that can enhance the level of local goods, services and employment utilized in offshore oil and gas activity; Reporting helps the province (3) be able to demonstrate good stewardship of a publicly owned resource to the people of the Province and (4) brief Ministers and senior officials on any issues that could require their attention.

**RECOMMENDATION**

- **The Atlantic Energy Roundtable consider ways to improve the current benefits monitoring, reporting and measurement systems employed in the Atlantic offshore, that meet the requirements of stakeholders for effectiveness, efficiency and transparency.**
- **A stakeholder committee plan and implement a workshop to more fully develop the issues raised regarding Benefits Monitoring and Reporting, review the workshop's findings and undertake such additional work as the Stakeholders agree is appropriate. Recommendations would then be presented to the appropriate governments and agencies.**

**5.4.5 Other Considerations**

The Supplier Development Committee recognized a number of key items relevant to the collection of data, interpretation of the Accords and implementation of guidelines. On the basis of considerable discussion, the following recommendations are made:

**RECOMMENDATION**

- **A stakeholder Committee review and improve the effectiveness, efficiency and inter-provincial consistency of existing supplier development data collection and management processes.**
- **Full and fair opportunity - That the federal and provincial governments provide clear interpretation of the Accord Acts terms: full and fair opportunity, first consideration and competitiveness.**

**Building on Success**

Building on the recent success with the logistics associated with the Flemish Pass drilling program, the collaborative process undertaken by the Task Force provided an opportunity to explore ways in which to make the region's operations more efficient and effective. The following recommendations extend this successful approach to all projects and operations in a broader manner.

**RECOMMENDATION**

**That the Canada-Newfoundland and the Canada-Nova Scotia Offshore Boards adopt, monitor and report on the results of using a longer time frame in interpreting the Accord Acts' requirements for marine crewing of offshore vessels and rigs based on operators' best efforts agreements to crew trans-boundary vessels with a proportionate mix of NL and NS residents reflecting required competencies and the expected working time in each jurisdiction.**

**That representatives from the Canada-Newfoundland and the Canada-Nova Scotia Offshore Petroleum Boards work with regional stakeholders to consider areas in which appropriate Board functions could be supported by common guidelines.**

**6.0 CONCLUSION**

Steering Committee and Task Force participants recognize the decision to invest in offshore exploration and development depends upon a number of factors. Some factors are within the purview of industry and governments such as fiscal terms, regulatory environment and a competitive industrial base; several critical factors are not, including market prices, geological prospectivity and environmental challenges. Research clearly shows that while an internationally competitive regulatory system does not guarantee investment, an efficient and predictable regulatory system makes investment more likely. Increased investment is the keystone of a sustainable, growing industry.

Steering Committee and Task Force participants also recognize that for the region and Canada as a whole to benefit fully from the development of these petroleum resources it is critical to position the local economy to capture the maximum benefits of the investment in offshore exploration and development.

As a result of the commitment of Roundtable participants (both in personnel and financial support), much work has already been undertaken to achieve the stated goals. The proposed work is important and substantive. It will require adequate resources and a commitment from all stakeholders to be completed in a timely and meaningful manner. Such commitment and cooperation is equally critical in implementing proposed changes that result from this work.

In the end, an effective regulatory environment characterized by regulatory clarity and certainty, competitive cycle times and cost savings, and a strengthened, growing and competitive supply and service community will be the contribution of the Atlantic Energy Roundtable to the goal of a diversified and growing economy in Atlantic Canada.