MARTIN Prosperity *Insights*

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Is Oil the New Cod? Resource Redux in Newfoundland and Labrador

Newfoundland and Labrador's oil industry-the source of almost 30% of its GDP in 2009 — far surpassed the wealth created in all other industries that year in the province. As the price of a barrel of oil increased rapidly during the 1980s and 1990s, Newfoundland and Labrador oil became a viable venture for much of the world's oil companies. As such, construction of the first oil rig, Hibernia, was completed in June of 1997 and began producing oil shortly after its completion. Today Newfoundland and Labrador is home to three major offshore oil exploration projects including Hibernia, Terra Nova, and White Rose with a fourth called Hebron set to begin operations in 2017. Oil extraction and oil support activities has been quite lucrative, valued at nearly $4.5 billion (CDN) in 2009. The province has also been able to profit directly, as it holds an 8.5% stake in the Hibernia project and an additional 4.9% ownership stake in the upcoming Hebron oil field project. In fact, the Hebron deal promises to bring an estimated $20 billion in oil royalties over the project's life expectancy of 30 years. In 2007 the province took in a reported $1.7 billion in oil royalties and the province's real GDP also rose by 9.1%, three times greater than the national average.

For St. John's, Newfoundland and Labrador's largest city, a similar story unravels with most of the city's wealth associated with the province's offshore oil industry. With oil rigs located just 350 kilometres from the city's coast, the oil industry in Newfoundland and Labrador is centralized in the St. John's CMA where most offshore workers and companies reside. The St. John's website proclaims the city to be a new "energy capital" with the offshore petroleum industry playing "a critical role in the City's economy." According to a local economic impact study conducted by the St. John's Economic Development, Tourism and Culture Department in 2004, the oil industry in St. John's accounts for between 5000 and 6000 jobs and has generated $800 million for the local economy. Most of these jobs have "trickled down" either as direct employment opportunities (engineers, administrative personal, technologists, and general laborers) or as support industries (raw material, industrial products, and other goods and services). These spinoff jobs include professional office services, food and accommodation services, legal services, fuel, safety equipment, power tools and related apparatus, research and development, and the exporting of oil for its refinement and sale in other provinces.

Not surprisingly, things are looking up for the province; according to the 2007 Newfoundland and Labrador Energy Plan, the province has an estimated total oil reserve of 2.75 billion barrels. But to place this into perspective: the province's oil represents only 1.5% of the total Canadian reserve and about 0.01% of Saudi Arabia's reserve (both are the world's first and second largest oil reserve holders). Provincial and municipal reports reveal little about long term strategic plans for the oil sector in Newfoundland and Labrador and what the province will do in a post-oil economy. These circumstances have become eerily reminiscent of Newfoundland's cod industry collapse nearly 20 years prior when government scientists missed the warning signs of the industry's self-destruction.

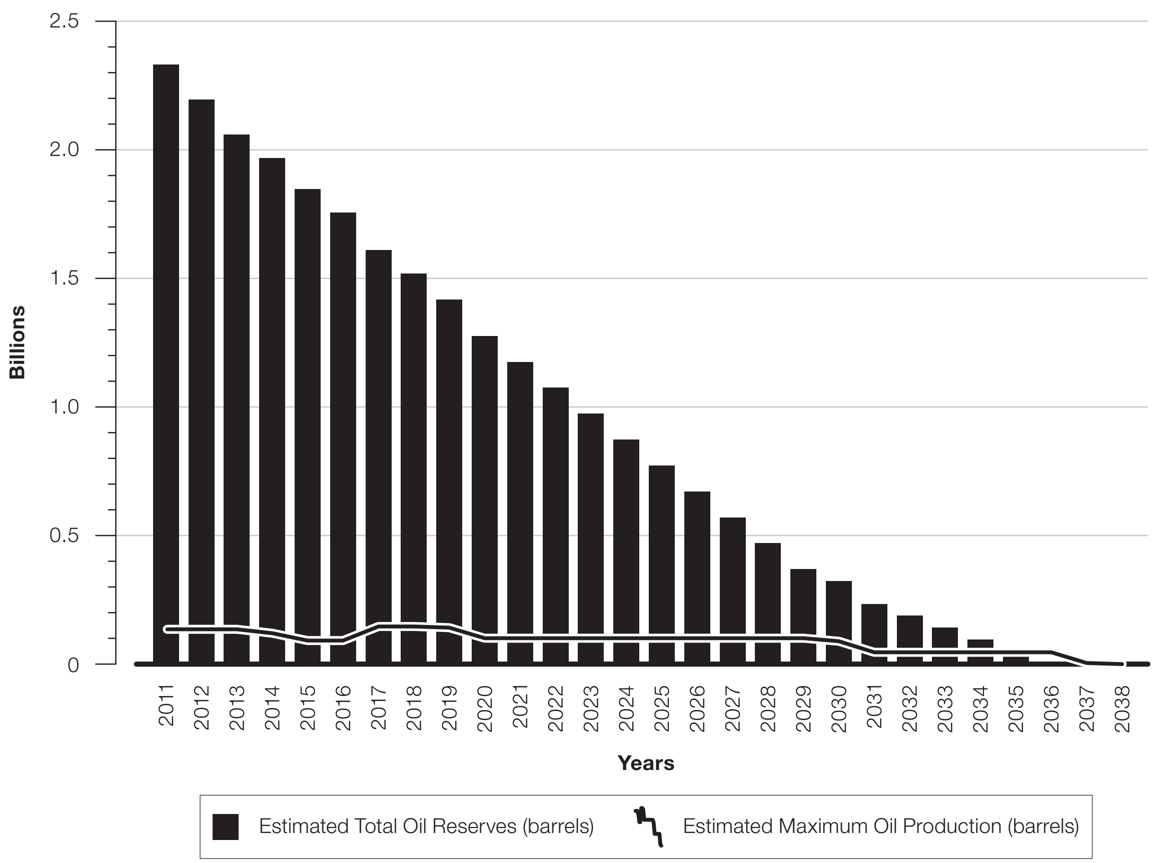
The cod industry was Newfoundland and Labrador's mainstay for over 500 years until 1992 when the cod industry collapsed suddenly. In 1992 cod catches were the lowest ever reported by scientists; down to about 1% of the levels they had been during the 1960s. Canada's Department of Fisheries and Oceans had no choice but to place a ban over cod fishing which stands to the present day. The culprit: overfishing, poor government management of cod stocks, and perhaps a tragedy of the commons.

By the 1960s traditional salt-cod fishing was being replaced by fresh-frozen cod and large fishing plants materialized in St. John's opening the floodgates for modern industrialization in the province. With heavy aid from the provincial government, the Newfoundland economy was transformed from a scattered inshore, household based, salt cod industry, into a modern and industrialized economy overrun with frozen fish companies. In 1977 the Federal Government of Canada became responsible for managing cod stocks around the coast of Newfoundland and Labrador and controlled the number of vessels permitted by employing licensing systems, setting quotas for vessels, and setting the Total Allowable Catch (TAC) for the industry each year. Based on overestimations of cod stock and faulty data sources collected by government scientists, the Department of Fisheries and Oceans licensed too many fishing vessels, set the TACs much higher than a sustainable level, and did not account for all the damage deep sea draggers and trawlers were doing to fish habitats.

The result was catastrophic for the province's economy and its residents. Fishing plants were forced to close, large fishing vessels were liquidated to companies overseas, and more than 40,000 people involved in the fishing industry lost their jobs. To cope with the loss of industry in the province the federal government shelled out several billion dollars into social welfare programs for those suffering from the economic downturn caused by the fishing industry's collapse. Making up a meager 0.7% of the province's GDP, and 2.6% of the province's employment in 2009, today the fishing industry in Newfoundland and Labrador has been dwarfed by oil. The question now is, how long will oil in Newfoundland and Labrador last and is the oil economy at risk of collapsing like the cod economy once did? In other words: **is oil the new cod?**

Newfoundland and Labrador Oil Reserve Forecast 2011–2038

Exhibit 1



Source: Industry Projects — Offshore Technology. (2011). In Offshore Technology.com. Retrieved June 6, 2011, from http://www.offshore-technology.com/projects
Design by Michelle Hopgood, Martin Prosperity Institute

Using the estimated total oil reserves and the estimated maximum oil production per day, we calculated an approximation of future oil supplies on a yearly basis for Newfoundland and Labrador. Estimated total oil reserves and estimated maximum oil production were calculated according to data collected for the province's four major offshore oil projects: Hibernia, Terra Nova, White Rose and Hebron. Estimated oil production peaks in 2017 when the Hebron oil field is set to begin its production.

Our projection shows that oil supplies in Newfoundland and Labrador will last approximately 28 more years. Signs of decline have already begun to surface in St. John's which experienced a real GDP decline of 7.3% in 2009 due to substantial decreases in offshore oil production. Perhaps there is something to be learned from the tragedies of the past and from other oil-baring nations already preparing for a future without oil. In the Middle East, the United Emirates and Qatar, two countries that have an estimated 100 years of oil reserves, have already begun their metamorphosis away from oil into the knowledge economy. Qatar, a country where 70% of their GPD comes from oil, recently established the *Qatar Foundation for Education, Science and Community Development* to help educate and retain local talent. Qatar's "education city" has attracted leading universities such as Cornell, Georgetown and Carnegie Mellon to help prepare the country's transition. Likewise the United Emirates, a place where more than 30% of their GDP is derived from oil, recently started "knowledge village" in Dubai containing international higher-learning institutions and training centers. With little being said about what will happen to Newfoundland and Labrador's economy when their oil begins to run out, the province should heed the warnings of the past to assure oil does not become the new cod.

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