

## **B.C. Uncharted Waters**

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Pacific Canada & North Coast Offshore Oil and Gas Development

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I am pleased to have the opportunity to address this 2<sup>nd</sup> annual Pacific Canada and North Coast Offshore Oil and Gas Development conference. The question before us is simple but the answers are complex: What do we need to know before making a decision on whether to lift the moratoria imposed by both the federal and the provincial governments on BC's offshore exploration and development? We have heard much, learned much, but in fact still know little about the specifics.

It reminds me of a story about the yachtsman who approached mariner to take his yacht through the Inside Passage north to Alaska. "Do you know where all the rocks are?" the boat owner asked the mariner. "No, I don't," replied the mariner. "What?" said the boat owner. "Those can be perilous waters. Why should I trust you with my new, expensive yacht if you don't know where the rocks are?" The mariner answered: "Because I know where the rocks aren't."

I titled my remarks *Uncharted Waters* because I love to sail the BC coast and I know how important it is to know where the rocks aren't. In the case of offshore oil and gas development, no matter how much information we have accumulated over the 32 years since the moratorium was imposed, or how clear the channel ahead may appear to us, there are many unknown shoals and hazards to navigate.

Until now, the major barrier has been the variety of moratoria imposed on the BC offshore since 1959, after the first offshore seismic activity took place in the Queen Charlotte basin. In 1972, the federal government suspended exploration activity and tanker traffic in Hecate Strait. In 1981, the BC government imposed a moratorium on offshore exploration in Johnstone, Georgia and Juan de Fuca straits and extended it in 1982 to the Queen Charlotte Basin, which BC has declared an Inland Marine Zone.

A stroke of the pen could remove these barriers since no legislated moratorium is formally in place. Both the federal and provincial moratoria are administratively imposed and

could be lifted by policy announcements by each government. In the federal case this would involve a strategic environmental assessment. Now the BC government has asked the federal government to consider lifting the federal moratorium on oil and gas activities offshore of British Columbia.

This request has initiated the three-pronged response by the feds. These are: to identify the science gaps regarding possible oil and gas activity in the Queen Charlotte Basin; to hear and report on public attitudes to lifting the moratoria; and to consult and explore issues of interest to First Nations. This has all created a buzz of activity in the coastal communities as chartered planes and water taxis zip around the coast, ferrying bureaucrats and panels of inquiry. All three phases should report by summer and a decision could be reached as early as this autumn.

The most formidable unknown relates to the nature of the oil and gas resources in the B.C. offshore. As we all know, no confirmed accumulation of oil and gas has been discovered. Since the offshore is virtually unexplored, we don't know where such resources might be found, or whether they might be economically developed or what the environmental impact might be on wildlife, fisheries, people and other resources. We don't know where the economic and social costs and benefits will accrue if oil and gas reserves are found and developed, or when these costs and benefits might happen. These unknowns mean we don't know what appropriate technology will be needed, or where it can best be produced. Finally, until these and other unknowns are clarified, we can't decide what form of regulatory and royalty regime should be negotiated, or among whom.

What do we know? Well, the respected Geological Survey of Canada suggests there may be potentially 1.3 billion barrels of recoverable oil and maybe 28 trillion cubic feet of recoverable natural gas offshore BC. We know there are many geological similarities between BC's coast, and the coasts of California and Alaska, where oil and gas have been successfully developed. We know that wind and sea conditions in the QCB, among the most severe in Canada, are similar to that of the East Coast, Norway and the North Sea, where development has taken place. But in the final analysis, when we are charting our course through the offshore, we are in unfamiliar waters. Extreme caution is required.

The lack of known conditions is not unique, nor fatal. When the Mulroney-Peckford governments first addressed the issue of the Newfoundland offshore in the early 1980's, we knew that there were commercial discoveries of oil and gas below the Atlantic's ocean floor. We were

aware of the potential of Hibernia. But the Liberal federal and Conservative provincial governments for years had failed to come to agreement on the ground rules for development. The Supreme Court of Canada had ruled the offshore belonged to the feds, despite Newfoundland's claim that the offshore resources were, like the cod fishery, the dowry the island nation brought to Confederation in 1949 when the Dominion of Newfoundland joined Canada. Fed-prov relations, under Liberal Energy Minister Jean Chretien, were sour and stalemated.

This was one case where ignorance proved blissful. When Brian Mulroney dispatched me to St John's in 1984 to negotiate with Newfoundland Energy Minister William Marshall, Mulroney was the Leader of the Opposition and I was his energy critic, a mere MP. Marshall and I were eating lunch in the provincial dining room of the Confederation Building. We were alone except for my assistant Brenda Brown, who tells me she remembered little of the conversation since she was wholly absorbed with the fact that the waiter's fly was open. Marshall, a gentle man of keen intellect was bemoaning the loss of the oil and gas dowry when I interrupted him, asking: "Let's forget about ownership. It's the royalty revenues and job benefits that count. So what if we treated the oil and natural gas as if they were on land?"

Marshall's eyes lit up. "You mean like Alberta?" he asked. Everybody knew that Alberta is rich because of its oil and gas. "Like Alberta," I said. We developed the idea that afternoon, took it to our respective bosses and the Atlantic Accord was born. Opposition Leader Brian Mulroney and Premier Peckford signed the Agreement in Principle on June, 1984, three months before the Conservatives won the general election. The Atlantic Accord, which we negotiated during my tenure as Minister of Energy, created the legislative and management framework for the development of the Atlantic offshore. We later negotiated a similar Accord with Premier John Buchanan for the Nova Scotia offshore.

The concept of developing the resource "as if it was on land" worked to create the Atlantic Accord because Minister Marshall and I knew that Alberta had already charted these fed-prov waters. We may not have known where the rocks were, but we knew where they weren't!

The Atlantic Accord's basic principles of joint federal-provincial management, royalty regime, job creation and provincial benefits have worked reasonably well over the years, a recent National Post editorial notwithstanding, although my former colleague John Crosbie has identified some of the issues which have emerged during that time, such as the impact on

equalization payments. But please remember the principle that petroleum royalties should be used to reduce equalization payments was a goal we negotiated, not a side effect, although now that BC is a “have not” province and receives equalization payments, I might take a different view today!

Another unmarked shoal is the nature of any management and revenue-sharing scheme between the federal and provincial governments and the newcomer to the negotiation table, First Nations. Some thought has been given to what kind of arrangements should be made in advance of the discovery of known reserves and the timetable required to develop them, but the framework will take time to work out.

I am reminded of the Northern Pipeline Agency, which was established by the federal government in 1978 to oversee the construction of the Alaska Highway Gas Pipeline to bring natural gas from Alaska to US consumers. The agency was mandated to maximize the social and economic benefits from the construction and operation of the pipeline, while protecting local interests, including those of native people and the environment. The late Mitchell Sharp was one of the agency’s Commissioners.

I have first hand knowledge of these events because in 1970, in my pre-political life, I owned and operated an economic consulting business, Gemini North, in Yellowknife, NWT, to conduct socio-economic studies on the impact of the proposed Mackenzie pipeline and later similar studies on the Alaska Highway, or Yukon pipeline. My partners and I operated Gemini North for 12 years, and worked on many pipeline and other related projects.

The Mackenzie pipeline was scheduled to start construction in 1972 and come on stream in 1974. Neither the Mackenzie line nor its alternative, the Alaska Highway pipeline, was ever built, although there is now talk of one or the other going ahead in the next few years. The Northern Pipeline Agency was opened with much fan fare, which diminished over the years. In December 2003 the agency was moved to Natural Resources Canada, pending a decision by industry on the future of northern pipeline development. A similar fate and expense could be incurred by the premature establishment of an oversight agency or management structure for the BC offshore.

A critical navigation hazard is the apparent lack of interest by major energy companies in the offshore. While these companies like to have a variety of potential exploration plays in their energy resource banks, they won’t drop their anchors in the offshore until they know what the

process for exploration and development will be. Two big hurdles are aboriginal land claims and risks to the environment. While both levels of government stress the need to “consult” or to “engage” First Nations, the consultation process has barely begun. BC officials admit that while some aboriginal bands have expressed interest, some are opposed, and none is rushing to the table

Among the many uncharted rocks and reefs to be identified are the impacts on coastal communities. The Public Review Panel headed by former Chair of the National Energy Board Roland Priddle, and his colleagues Don Scott, former mayor of Prince Rupert and environmental consultant Dr. Diana Valiela, will be on the road next week.

The Priddle Panel’s mandate is to listen to coastal British Columbians and to hear their concerns. The panel is expected to summarize, evaluate and make recommendations by summer. The huge shoal that the Review Panel has already identified is the lack of information available on the nature and impacts of oil and gas development, and the exploration and development process that will take place if the moratorium is lifted.

Despite best efforts, the Priddle Panel has very little hard information to share with the coastal communities. Current public perception is often based on false concepts, for instance, the idea that if the moratorium is lifted, Shell Canada Ltd. will immediately uncap its existing offshore wells and start producing oil and possibly oil spills to the detriment of the marine and coastal environment. In the absence of hard data and plans, it is very difficult for the communities to formulate an informed response. Often the responses heard today may not be very relevant in the future.

Let me give you an example from my own experience. When my company Gemini North was conducting our studies in the Mackenzie Valley communities, we soon learned that the residents, aboriginal and non aboriginal, feared that the planned pipeline was going to move gasoline down the Valley, creating the threat of forest fires, which would destroy their homes and the animal habitat, including the fur bearing animals that were part of their traditional economy.

This was an alarming prospect, so we asked the pipeline engineers to build a model of an above ground pipeline, which was bermed so it didn’t melt the permafrost, with a drilling rig at one end, and small gas plant at the other. The model was attached to a gas hot plate.

We usually organized each community workshop in the form of a circle, so it would be less intimidating. I would explain that you couldn't see natural gas, but you could smell it. I would show how natural gas was pumped up from the ground, and through the pipeline to the scrubbing plant, where it was cleaned, and finally pumped through to the stove to make tea. At this point, I struck a match, placed it near the hot plate, and produced a ring of fire for the tea kettle. "Aiyee," nodded the old women, their heads covered in blue kerchiefs; they understood gas-fired Coleman stoves. After the demonstration we asked them about their community.

Our approach worked well until we reached Old Crow, a beautiful village located above the Arctic Circle on the Porcupine River in Yukon. One of the few communities that still relied heavily on traditional hunting and trapping communities at the time, Old Crow was heavily dependent for heating on firewood. Since the forest adjacent to the community was being cut down, natural gas might be a useful alternative.

I set up the natural gas pipeline model before the assembled villagers, many of whom I knew. I showed them the drilling rig, the pipeline, the scrubbing plant. But something must have jiggled loose when we transported the model in our Twin Otter through the mountain passes because when I put the match to the gas hot plate, the whole damn thing blew up. "AIYEE!", screamed the villagers, aghast. I knew when to cut our losses; we packed up the pipeline model and left. Not surprisingly Old Crow voted against the pipeline and natural gas as a fuel supply.

In the absence of relevant information on the resource base, production plans and processes, the community consultative process is of limited value. I can tell you, with a high degree of accuracy, what views are likely to be expressed in each community on the Public Review Panel itinerary. But the hard fact is that the information that these communities need to identify their interests and reach some consensus will not be in place by the time the Priddle Panel reports this summer. This black hole, or absence of data, can also allow the consultation process to be co-opted by groups and interests who oppose offshore development on equally dubious data. Yet I know Roland Priddle to be meticulous in his approach to his work – which I why I appointed him to chair the National Energy Board in 1986 when I was Minister of Energy – and his panel will carry out their mandate. This could place the governments between a rock and a hard place; what will they do if the public, on balance, reject the development of the offshore at this time, when the BC government appears anxious to proceed?

A problem I have with premature consultation programs, when in fact the project is still in a pipe dream phase, is the heightened expectations the process creates in the communities concerned. Dreams of jobs and new industries and new infrastructure and opportunities for our families and our youth then dissolve into a nightmare of bankruptcies and empty storefronts and economic stagnation and unemployment.

This happened in Inuvik and other northern centers when Commissioner Tom Berger recommended a moratorium on pipeline development in 1977 in his report, *Northern Frontier, Northern Homeland*. Both public agencies and private industry were forced to retreat when the anticipated economic boom times failed to materialize after Mackenzie energy development stalled.

Those six year-old children sleeping in the school halls with their bare legs and rubber boots never did get those promised pipeline jobs when they grew up because those jobs never emerged. Other, older youth were trained for similarly elusive jobs. Some did find work later in the oil and gas exploration plays of the Delta and Beaufort Sea. But the aboriginal youth from the Mackenzie communities who went south to Alberta to train for northern pipeline jobs worked their entire careers in the Alberta gas plants and pipeline systems, with little opportunity to return to their home communities.

But that was different, you might argue. Those negative impacts resulted from the imposition of a moratorium. Here we are looking at the lifting of a moratorium that has been in place for 32 years! Surely the reverse situation—boom rather than bust—would hold true. Look at Newfoundland and its thriving, job creating oil and gas economy. Look at Nova Scotia with its developing natural gas play.

Of course oil and gas exploration and development brings economic benefits. Look at the Peace region and centers like Fort St John. Revenues from oil and gas are now the biggest source of resource revenues for the government of BC. But it takes years to get to that point. Businesses that are encouraged to expand too soon risk bankruptcy. And people trained prematurely for jobs that don't materialize risk loss of income they might otherwise earn; a trained worker can never collect in the future the income lost from unemployment in the past.

In my view, the BC government is in dangerous waters when it promotes unrealistic offshore development timetables with possibly drastic economic and social consequences, particularly for the coastal communities. For instance, Energy and Mines Minister Richard

Neufeld wrote in the Vancouver Sun recently that his goal is to develop BC's offshore resource by the year 2010, the same year as the Vancouver-Whistler Olympics. Achieving this goal in the next six years would be an Olympian task indeed.

Minister Neufeld says "science" supports this goal, quoting the recent report of the Royal Society of Canada, which concluded that "provided an adequate regulatory regime is put in place, there are no scientific gaps that need to be filled before lifting the moratoria on oil and gas development."

But the minister failed to report that the venerable Royal Society estimated it would "likely take about 15 years to move through the stages of activity prior to first production." The Society states that those phases include seismic surveys and other exploration activities, exploration drilling, delineation drilling, production, and decommissioning. The Society then lists pages of "science gaps" which must be identified and filled before exploration and development take place. It repeats, and I quote, "oil is unlikely to be produced from the Queen Charlotte Basin **for at least 15 years** and, as technology will change during that interval, production processes and their impacts should be assessed closer to that time." My point exactly.

The Royal Society's time line is three times Minister Neufeld's six year – or more accurately – his five year sail plan, since any decision on lifting the moratorium can't be made before fall at the earliest, given the time required to complete and evaluate the consultation processes launched this spring. And the list of assumptions and deficiencies outlined by the Royal Society is not the clear sailing Minister Neufeld suggests.

While the engineering and technology may be in place, the environmental hazards are still unknown. These may be different than anticipated now. (In the north, despite the concern of environmentalists, the caribou actually grazed down the seismic shotlines, despite the concerns of the environmentalists.)

I suggest Minister Neufeld is misreading his charts when he suggests that "no science gaps that need to be filled" before the moratoria are lifted, because the Royal Society, in very convoluted language went on to say: "It is extremely important to recognize that this does not mean that science gaps do not exist." The Society then outlines a long list of gaps, ranging from lack of base-line studies of the geography and ecology of the region, to the specific impacts, such as the impact of seismic surveys using air guns on species at risk.

The Royal Society is not suggesting that development should begin immediately, noting that the necessary regional environmental data cannot be collected quickly. The report states; “What it does mean is that, if the moratoria was lifted, regulation would be in place to ensure that these critical science gaps would be filled before development of an oil and gas industry in the QCB.” This is an untested assumption.

What the Royal Society is really saying is that the ban on oil and gas exploration and development in the QCB shouldn't be lifted until a wide range of key environmental questions are answered, and long-standing conflicts resolved, including aboriginal claims and the tricky issue of how the royalties are to be shared. This process, the Society concludes, could take about 15 years and counting.

But what about the conclusion reached by the Society and by earlier reports that no scientific gaps need to be filled? Essentially the scientists have taken data from the North Sea and North Atlantic oil and gas producing area and applied it, in theory, to the BC west coast. This includes data on currents, winds and waves, earthquake monitoring, and actual drilling technology and production facilities. But in each and every case it identifies, the Society's report stresses the need for specific studies and monitoring in the Queen Charlotte Basin itself. The lack of scientific knowledge of the area is understandable, given the moratoria, but the unknowns are huge and give rise to the current apprehension about development of the offshore.

What exactly **would** be the impact of development on the wild salmon fishery, the 20 odd species of whales and pinnipeds (whatever those are), sea otters, seabirds and the sponge reefs which are unique in the world? What about the other species, ranging from grizzly bears to people, who depend on the natural resources of the region for their survival? And are governments and industry willing to spend the time and money to find out?

The removal of the Big M won't necessarily translate into instant activity. We do not really know what interest the industry has in the offshore, given alternative sources of energy, although we can predict that rising oil and gas prices and declining reserves will pique interest at some point. But first there is the nagging question of whether there are economic resources to be found at all and whether they include oil and/or natural gas, which may pose different risks. “People would just like to know what is out there,” said one federal official. But experience tells us that companies won't commit major investments until they know what the fiscal, regulatory

and management regime will look like, what royalty structure will be in place and the status of aboriginal claims.

At this point the participation of First Nations is a puzzle. We should never assume that individual aboriginal bands and communities will respond in the same way. The Haida Nation has declared that members will not attend the BC offshore general meetings in any official capacity, insisting that any dialogue between the Haida and the province or Ottawa must be done on a government to government basis. Other aboriginal communities are interested in participating in a shared-benefit basis. BC officials are looking at various instruments such as an aboriginal trust, similar to the Columbia Trust where Columbia Treaty benefits were to be returned to the Kootenays. This would appear to be a dubious precedent, since the provincial government recently withdrew the Columbia Trust's local benefits.

Another piece of the puzzle is the case currently before the Supreme Court on whether aboriginal people who claim title, but have not secured it through the courts or treaties, have the right to be consulted on land about to be logged, mined or developed. It is unlikely First Nation concerns can be identified, negotiated and put in place on Minister Neufeld's five year plan.

Other regulatory reefs include barriers created by other government bureaucracies with conflicting mandates. BC officials make no secret of the fear that Environment Minister David Anderson will use environmental tools, such as marine wildlife areas, in "protected marine areas" to constrain exploration and development activities. Last September, Environment Canada advised the BC government of plans to designate the Scott Islands, off the north tip of Vancouver Island as Canada's first Marine Wildlife Area. The proposed study area is very large and extends west and north to a point fairly close to the proposed Gwaii Hanaas National Park, which would clearly narrow the area available for exploration activity. Environment Canada has recently announced that the goal for the Scott Islands is to have a draft framework by May, including boundaries, and the establishment of the MWA by the fall.

At least two other areas in the QCB are proposed as marine sensitive areas, although it is not DFO or Environment Canada's intent to declare all or these areas off limits. But those of us familiar with anti-development strategies know that when in doubt look to legislation like the *Navigable Waters Protection Act* (Transport Canada) or the *Migratory Birds Convention Act* (Environment Canada) to throw out a sea anchor to slow things down. The Royal Society reported that 16 marine species in the QCB are listed as endangered, threatened or of special

concern and negative impacts from oil spills or other calamities could range from small to large scale kills.

This kind of talk angers Environment Minister David Anderson, who makes no secret of his opposition to removing the moratoria at this time. “We have been trying to complete an MOU (Memorandum Of Understanding) on seabirds with the BC government for the last five years,” he snapped when I asked him for his response. “There are thirteen species at risk in the Triangle Island area alone and the areas mapped are not the final boundary. We should be able to discuss seabirds. If BC can’t, then they are confessing that seabirds are at risk from oil and gas development.”

Federal officials are careful to point out that the decision to accede to BC’s request to lift the moratoria is not theirs to make. When the current three-pronged review of the science, public opinion and First Nation engagement is finished, possibly by autumn, the federal Cabinet will make the decision. But experience and intuition—that political instinct—tells me that the Paul Martin government is leaning towards agreeing to BC’s request. One minister told me (informally, so I won’t name him) that the pieces are falling into place.

The BC government’s position is clear. Jack Ebbels, the head of the BC Oil and Gas Team, says that “provided that development can be undertaken in a scientifically sound and environmentally responsible manner, the province has an obligation to proceed”. The basis of this obligation presumably is to provide jobs and earn government revenues. The province does not plan further public hearings. Officials say that the province has done its own science review and community consultation, referring to the Strong Report (2002), headed by former University of Victoria president Dr. David Strong, and the six-member task force of government MLA’s who visited communities in 2001. The science panel concluded in 2002 that there were no “unique issues” that justify a blanket moratorium on oil and gas activities, although few local scientific studies were undertaken.

The MLA task force, in a slim 12-page report, confined itself to identifying familiar community fears about the social, economic and environmental impacts. The MLA’s report carefully concluded: “If accurate answers can be provided to the aforementioned questions, it would do much to address community concerns.”

Neither report comes anywhere near filling the scientific gaps and conditions that the Royal Society deems as essential before oil and gas activity can safely proceed.

Given all these shoals and reefs, marked and unmarked which could impede our progress, what course should we set towards development of the offshore, or should we proceed at all?

I suggest that we spill a little wind out of our sails, slow down and review our sail plan. The time frame suggested by Minister Neufeld is likely to create a storm of controversy, some valid and some not. At this point we don't have the information to make a judgment.

First, the complex issues of ownership and management, including First Nation participation, must be addressed and concluded in a way which will attract the substantial investment required for offshore development. Vague statements such as, governments remain committed to settling land claims and reaching treaty settlements in a fair and equitable manner, won't do the job, as the NWT experience shows.

Second, the science gaps identified by the Royal Society and other groups must be filled. While it is argued that the moratoria inhibit certain activities, the moratoria could be lifted on a test basis in certain areas to allow necessary research to proceed. One precedent is the use of test fishing to determine the size and nature of wild salmon runs in the commercial fisheries before openings are set for the commercial fleet.

Minister Anderson agrees that the moratoria could be lifted seasonally, when the whales and the seabirds and the porpoises are absent. "We have identified the studies that are needed to be done," he says. "My position is, do them first, BEFORE proceeding. If we have the basic information, even if it means some seismic, THEN we can decide."

Anderson agrees that technology has improved over the 32 years that the moratorium has been in place, but he argues it will improve even more in the future. "The longer we leave it the less the risk." His biggest fear is that once the Big M is lifted the research needs identified by the science panels are unlikely to be carried out sufficiently by industry. "The other side will promise to do the work, but in my experience they never do," he said. "Once the moratorium is lifted, in the public mind, it is game over."

If exploration is initiated on a test basis, who will pay, government or industry? The Royal Society suggests that government and industry should split the bill, with governments paying for scientific information that benefits society as a whole, and industry paying for specific activities that benefit the developers.

The Society also assumes that offshore activities would be controlled by a regulatory board which would have an arms-length relationship with both industry and government. While

no public commitment to fed-prov joint management appears to have been made, the proposal has been on the books since we envisaged a Pacific Accord between both levels of government when I was federal Energy Minister.

Despite BC's stance that no further public hearings in coastal communities are necessary, failure to provide information on a consistent ongoing manner so that communities, including First Nations, can formulate their own plans would be self defeating, and could delay any offshore development for decades.

The amount of time, money and effort that must be spent on charting a course through these reefs and shoals to successful development of the offshore may seem Olympian in scope. But scientific evidence and public opinion both suggest we should take a more precautionary approach to BC's offshore development.

If we do not alter our course, offshore development of our oil and gas development may remain tied up at the wharf for decades to come. And that may not be in anyone's interest.