

**Oil, Politics and Public Policy:  
A case study of Newfoundland and Labrador**

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## **Abstract**

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Oil has been seen as both a blessing and a curse. This paper explores the impact which the oil industry has had on politics and public policy in Newfoundland and Labrador. It applies the concept of the “Paradox of Plenty” (Karl, 1997) to the situation in Newfoundland and Labrador. The “Paradox of Plenty” is that sudden riches from natural resource development often alter not only the economy of the state, but also government institutions, in ways which are often detrimental to the long term development of the producing jurisdiction. Policy documents, media reports, statements by politicians, exchanges in the House of Assembly and various other sources are used to construct an overall understanding of the impact on politics and public policy in the province. Comparisons are made to other oil producing jurisdictions including: Alberta, Norway and Scotland. The paper identifies alternative development strategies available to the province based on an analysis of oil development in these other jurisdictions.

## **Introduction**

The random events of nature that placed oil and gas off the coast of Newfoundland and Labrador began hundreds of millions of years ago (Deffeyes, 2009; Downey, 2009). Sunlight beamed down upon the ocean and started a process that would eventually result in the oil that we use today. The first step in this long process was the phytoplankton or plants that live near the water surface where there is enough sunlight to support their growth. Other zooplankton or small animals that feed on other plankton were also present. In this environment millions of years ago these tiny plankton settled to the bottom of the ocean and accumulated in large quantities. Over time this organic matter mixed with mud and got buried under heavy layers of sediment. The resulting high level of heat and pressure caused this organic matter to chemically alter. Over hundreds of millions of years it transformed into the liquid we know as oil and in some cases formed into gas. Through the randomness of the process this liquid oil is of different qualities and requires different degrees of refining before it can be used. A similar process occurred on land where plants formed the basis for the development of coal. This paper is about how the people of the province of Newfoundland and Labrador, who by this fluke of nature happened to be located next to such a valuable resource, make decisions related to the development of this resource and how this influences their continued prosperity.

When some of the first European settlers came to Newfoundland and Labrador they were in search of a different kind of oil. Basque whalers in the 1500s and possibly earlier came to the coast of eastern Canada in pursuit of whale oil which was used to light the streetlamps in the cities of Europe (Cadigan, 2009). Before the latter half of the 18<sup>th</sup> century energy needs for industry usually came from human and other animal sources. Also, windmills and watermills provided energy to grind grains, saw wood or pump water. Wood or peat was often used to provide heat. With the coming of the industrial revolution coal and later petroleum were used to fuel steam engines (Freese, 2003; Yergin, 2009). The invention and increased use of the internal combustion engine drove the demand for oil to produce products such as gasoline and diesel oil which had previously been over abundant by-products of the refining of the main petroleum product of the time, Kerosene which was still widely used in household lamps (Yergin, 2009).

It was during this period that oil began to be transformed from just another commodity into the strategic resource that it is today. The amount of energy it holds in such a compact space in combination with the fact that it is relatively easy to transfer from its source to where it would be used gave it advantages over other fuels. In recent years, although increasing concerns have been raised about environmental problems of burning fossil fuels, oil is still the major source of energy for the world (Downey, 2009).

Much academic debate has focused on the impact of oil development on regions where this valuable resource has been found. Newfoundland and Labrador is a relatively new oil producing area of the world and presents an understudied case of how the presence of oil revenues impacts the politics and the economy of a producing jurisdiction. Oil is the largest contributor to provincial GDP on an industry basis. There are three active offshore oil projects: Hibernia, Terra Nova and White Rose. The fourth major project (Hebron) is scheduled to produce first oil in 2017. Between 1997, when the first oil from Hibernia occurred, and 2010 provincial real GDP grew by 58.8%. It is estimated that almost half of this growth was directly attributable to oil production (Government of Newfoundland and Labrador, The Economy 2012).

The purpose of this research is to explore the impact which the oil industry has had on politics and public policy in Newfoundland and Labrador and to examine those events in relation to Terry Lynn Karl's (1997) concept of the "paradox of plenty". This paper is significant for two main reasons. First, it provides insight into the particular circumstances in the Province of Newfoundland and Labrador and offers insight for public policy decision makers in the province. Second, it provides another case which can be used for comparison purposes and to test political and economic theories related to resource development.

### **Literature review:**

In this section of the paper an overview of literature related to this topic will be provided. Three categories of literature are examined: (1) that providing an overall background and global context for the study; (2) that which focuses on how oil development has impacted on politics and public policy in other jurisdictions; and (3) literature related to the impact of oil on politics and public policy in Newfoundland and Labrador. An examination of this literature will provide a basis for analysis of data related to Newfoundland and Labrador.

Daniel Yergin's (2009) book *The Prize* provides a comprehensive overview of the history of the oil industry from its earliest beginning to evolving into the strategic economic role that it has in global politics and economics today. He documents the early days of the industry in the United States and the shift of the US and Europe from domestic sources to dependence on sources based in other countries. This dependence set the stage for the supply disruption and price increases of 1973 which lead to a global hunt for new oil especially in countries considered to have stable political environments. Tom Bower (2009) in his comprehensive look at oil as a strategic resource, offers an assessment of recent events in the oil industry. He provides insight into how various actors in the oil industry struggle to gain control of sources of crude oil which has become an essential commodity for modern society. His work builds on that of Anthony Sampson (1975) who in his book *The Seven Sisters* described the relationship between the seven major oil companies and OPEC.

Other themes developing in recent literature relate to the concept of peak oil (Deffeyes, 2009; Heinberg, 2005; Hirsch, 2005 and Simmons, 2005; Tertzakian, 2006) and the possibilities

presented by alternative energy sources (Smil, 2008; Yergin, 2011). Kenneth Deffeyes (2009) provides an update on the controversial and dire predictions of geophysicist King Hubbert who in 1956 predicted US oil production would peak in the 1970's. Drawing on his experience as a geologist Deffeyes explains the origin of oil, the geology of finding oil and the technology used to extract it. Based on his understanding of these factors he makes the case that the world will soon reach peak oil and this will have significant consequences for economics and international politics. Tertzakian (2009) documents the growing appetite for energy resources in both the wealthy and developing nations of the world which he claims is unsustainable. He believes changes in practice along with changes in technology will help curb the unsustainable trend. Smil (2010) examines alternatives to present sources of energy and concludes that many of them are far from proven. He predicts continued reliance on traditional sources of energy and a slow transition over decades to other energy sources. This conclusion is similar to that of Yergin (2011) in his latest book, *The Quest: Energy, Security, and the Remaking of the Modern World*, in which he examines the current energy environment and explores the possibility of alternative sources. Rather than reaching a peak and then having a steep decline which would result in catastrophic event, he puts forward the concept of a "plateau" involving "decades of further production growth before flattening out into a plateau - perhaps sometime around mid-century – at which time a more gradual decline will begin" (p.227).

The theoretical framework for this paper which will be explained further in the following section is the "Paradox of Plenty". This widely accepted theory is that sudden riches from natural resource development often alter not only the economy of the state, but also government institutions, in ways which are often detrimental to the long term development of the producing jurisdiction (Karl, 1997). This theory is supported by the work of many researchers and academic writers. Shaxson (2007) examines the negative impact which oil production has had on many countries in Africa in terms of corruption, authoritarianism and misguiding the economy of various countries. This analysis is also supported and further documented by Ghazvinian (2007) who also examined the impacts in Africa. Not everyone however agrees with this theoretical position. Dunning (2008) challenges the theory put forward by Karl (1997) and others, contending that in some cases resource wealth may bolster democracy. He points to countries that seem to have avoided the resource curse such as Botswana, Norway, Australia and Canada as evidence that resource rich countries do not necessarily suffer economically or their governments become more authoritarian. Luong and Weinthal (2010) explore ownership structures and institutions in Soviet successor states and argue that oil is not necessarily a curse in all jurisdictions. The weakness or absence of government institutions, while correlated with the resource curse in the developing world is not the problem, rather it is ownership structures of who owns and controls the resource sector.

Leah Fusco (2006) provides a comparison of energy policy development in the USA, Canada, Britain and Norway. At the beginning of her analysis she notes that two issues constantly come up in countries with oil resources; (1) how to produce oil so it benefits the economy of the

country, and (2) how to ensure adequate and secure supplies of oil for its people. The strategy in the USA while changing with various administrations has involved the use of foreign policy to gain more control of oil producing regions, not only in the Middle East, but also those in friendly politically stable countries such as Canada and Mexico through trade agreements. Canada, like many countries, in the 1970s and 1980's moved towards more control of its own resources but since the late 80s has moved towards a more globalized open market approach to resource development. In a similar way Britain also changed its development approach as the country moved from a Labour government promoting nationalization to the Thatcher Conservatives who favoured more deregulation and liberalization. In Norway the national oil company approach and demands for local benefits from oil persisted longer. Given the economic and political environment of the 1970s and 80s, and the relative prosperity of the country before the discovery of oil, Norway was able to bargain effectively with international companies.

The OPEC oil shock of 1973 and the second oil market upheaval in 1979-80 caused many countries to re-evaluate their oil dependency and to search for ways to secure adequate supply. The Canadian government's reaction to this shock was the National Energy Policy (NEP) a program that from the very start engendered controversy (Fossum, 1997). The main themes of the program involved the 'Canadianization' of the oil industry through a series of actions rather than the more controversial nationalization that had been undertaken in other countries. It involved a series of actions to regulate energy prices, taxes on oil and gas production and provided substantial incentives for exploration work in the North and offshore. This would also involve the expanded use of Petro-Canada, a state owned oil company, set up as a result of a promise in the 1974 election campaign. When the Mulroney government was elected in 1984, oil prices had fallen, relieving anxiety and eroding support for the NEP even in central Canada. The new government took a more market driven strategy to managing oil resources and eventually privatized Petro Canada and eliminated the generous incentives for exploration in the North and offshore.

Several works have documented the impact which oil development has had on Alberta politics and public policy. David Wood (1985) provides an insider's view of the politics and public policy initiatives of Premier Peter Lougheed as Alberta started to be more assertive within the Canadian confederation from the period 1971 to 1985. The book offers insight into the provinces view of the NEP (National Energy Policy) and the Lougheed administration's efforts to pressure the federal government to abandon this policy. The work also demonstrates Alberta's Heritage Fund approach to managing oil revenues.

Timothy Le Riche (2006) offers an overview of the development of the Alberta Oil industry from the first discoveries in the Turner Valley in 1914, Leduc in 1947 and the continuing development of the oil sands. The work provides background on the importance of both individual efforts and government involvement in the early days of the development of the industry. As with oil development on the east coast there were jurisdictional battles with the federal government and disputes with the oil companies about royalty regimes. Also, similarities

were evident in the initial difficulty getting the industry started and the importance of critical events such as the energy demand during World War II and the OPEC actions in the 1970s in pushing forward new production.

Larry Pratt (1985) more explicitly connects the development of oil in Alberta and the situation in relation to resource development in Newfoundland and Labrador. In an address in honour of David G. Alexander he connects the issues of regionalism and devolution of power within Canada relating to the NEP of the 1970's. He makes the argument that both the NEP and federal fisheries mismanagement on the east coast are examples of how regional development is sacrificed because national policy makers do not take into account peripheries of the country. He then provides a critical examination of the NEP and how it reinforces the belief "that central Canadians continue to regard the west as little more than a resource-rich hinterland" (p.178). He provides evidence of the adaptability of multi-national oil companies to any regulatory regime and a willingness on their part to work in any political environment as long as there is an acceptable rate of return.

Several authors provide evidence that much has changed since the 1980's when Pratt critiqued the "myopic" indifference of national policy. Trevor Harrison and Gordon Laxer (1995) note that Alberta's political culture has been shaped by a series of political crises which have necessitated a rallying together to support the provincial government. Such events over an extended period of time have led to a form of "quasi-nationalism" (p.5). In presenting a collection of articles they contend that Alberta's views are now influencing broader Canadian politics and public policy. Rovinsky (1998) provides a historical account of the "ascendancy" of Western Canada in Canadian policy making. Because the region is booming he contents it is having greater influence in the political and economic life of the country. He also predicts that the changes happening in the 1990's could lay the foundations for a profound reshaping of the Canadian political landscape. This prediction of 14 years ago certainly seems to have been validated by events in Canadian politics since that time.

Christopher Harvie (1994) provides a chronology of events and a critical analysis of the impact of North Sea Oil development on Scotland. He documents the growth of Scottish Nationalism based on the development of oil and the battle to get additional local economic development from the oil industry. Unlike Newfoundland and Labrador, Scotland had a history of industrialization and shipbuilding which had established interests which demanded more industrial benefits. He also makes comparisons between the benefits achieved by Norway from its offshore oil and those achieved by Scotland because of the differing development policies.

Norway is often seen as a model country that has developed its oil resources in the right way. Part of the explanation of this may be in the observation of Walter Galenson (1986) that Norway was one of the few countries to discover oil while they were already relatively wealthy. Thurber and Istad (2010) emphasized that Norway also had the advantage of having "a mature, open democracy as well as bureaucratic institutions with experience regulating other natural resource

industries” (p.6). They go on to make six principal observations from their research on the Norwegian petroleum model: (1) Norway’s policy orientation from the start was focused on maintaining control over the oil sector, as opposed to simply maximizing revenue, (2) the importance of having a skillful bureaucracy operating within a mature and open political system, (3) Statoil, the state owned oil company, had an important role in developing Norwegian industry and technological capability, (4) the formal relationship between Statoil and government has become more arm’s-length as Norway’s resources and oil expertise have matured, (5) despite the arm’s length relationship there has been strong support for Statoil becoming competitive internationally, and (6) it is doubtful if being a state owned oil company provides any benefits in opening resource access around the world (p. 6-10).

The creation of the Government Petroleum Fund by the Norwegian government in 1990 was triggered in response to the deep recession caused in Norway by oil price drops in 1986. Also the way which the fund was established allowed for non-oil budget deficits to be covered each year by withdrawals from the fund not to exceed the annual real rate of return on the fund capital. The fact that the fund’s capital was invested outside Norway avoided the “Dutch Disease” common in oil economies and also further diversified the country’s exposure to petroleum-related economic volatility (Fusco, 2006: Thurber and Istad, 2010).

Doug House (1982) writing at the time when the dispute for control of offshore resources was still ongoing, set out to explain the context of this issue. He starts by explaining that the more assertive style of Premier Peckford at the time was very popular politically in his own province. He contrasted Smallwood’s style as a partner with the federal government to industrialize the province whereas Peckford saw control of resource development as a starting point for linkages back to local servicing and manufacturing. House notes that, similar to the stance taken by Premier Lougheed in Alberta, Peckford’s approach involved confrontation with the federal government.

Hillier (1987) provides an overview of emerging nationalism in the province during the 1980’s. While he notes that the factors leading to nationalism in Newfoundland and Labrador are rooted in historic factors and ethnicity, the discovery of oil accentuated these existing tendencies.

The extraction of this new resource, the employment it would provide, and the multiplier effect throughout the society appeared to signal a rejuvenation of the provincial economy. ... The fight for ownership of offshore resources became symbolic of the desire to enhance regional control over the pace and the nature of development in order to reduce or eliminate the province’s dependence position. (Hillier, 1987, p. 263)

Like in other countries, nationalism in Newfoundland and Labrador he notes has been fostered by a growing middle class. He contends that it is this growing middle class which supports province building and their influence is being felt as they take positions within the civil service



and leadership roles in their communities. To support his case he references an earlier article by Overton (1979) related to the emergence of neo-nationalism based on a romanticisation of the traditional way of life in the province by this new urban middle class. Hiller concludes by hypothesising, based on similar phenomenon in both Nigeria and Scotland, that oil development can result in a new articulation of dormant nationalism based on “the necessary impetus and self-confidence needed to challenge existing structures” (p. 271). The rise of nationalism as a result of oil development has been noted by other writers as well. Yergin (2009, p.545) explains the occurrence in Iran as the Shah in the 1970s attempted to establish himself as a world leader and re-establish the ancient Persian Empire and Karl (1997, p.124) explains how the plans for “La Gran Venezuela” was partly driven by national pride.

Fusco (2007) provides an overview of the offshore oil development and places these events in a broader historical context of both the province and the country. This review examines the role of the NEP and the disputes for control starting in the 1970s and continuing into the 2000’s. The paper also provides insight into the negotiations between governments and oil companies in relation to the development of Hibernia, Terra nova, White Rose and Hebron Oil fields. Sinclair (2008) provides an examination of the various factors which resulted in the provincial government reaching a favourable agreement with major oil companies for the development of the Hebron field. At one point the prospects of development were looking dim, the consortium had announce they were abandoning the project and claimed that once they had dismantled the development team it would take at least two years to restart the project. The main points of contention were the province’s demand for an equity stake in the project as well as the introduction of a super royalty level which would take effect when oil prices were exceptionally high. Sinclair argues that the Chevron-led consortium negotiated from a point of weakness given the already tight and declining supply of oil combined with an increasingly unstable investment climate elsewhere at the time. This combination of factors resulted in a development agreement where the province got most of what it wanted.

Marland (2010) examines the nationalist language used by Premier Williams in relation to resource development. While placing the recent resurgence in nationalism in the province in a broader theoretical framework of economic nationalism he also provides a historical context for its development. His examination of Williams populist nationalism focuses on the federal-provincial disputes related to offshore oil revenues and development. The details of this dispute are documented by Bill Rowe (2010) who was one of the participants in the initial dispute with the Martin government. Marland also notes that the populist nationalist rhetoric also led to a more authoritarian approach to government and aggressive attacks upon critics both internal and external. He also contends that while the current form of nationalism has resulted in demands for changes in the way outsiders perceive and treat the province, it has not been internalized to the point where the people of the province demand internal reforms.

This literature review has provided an overview of literature related to the global context of this study, how oil impacts on public policy in other jurisdictions and also literature related to oil,

politics and public policy in Newfoundland and Labrador. It highlights the complex global nature of the oil industry and the similarities between jurisdictions. This background literature as well as the theoretical framework to be examined next will provide a basis for analysis of the situation in Newfoundland and Labrador.

### **Theoretical Framework**

Put simply the “paradox of plenty” is that sudden riches from natural resource development often alter not only the economy of the state, but also government institutions, in ways which are often detrimental to the long term development of the producing jurisdiction. Terry Lynn Karl (1997) started her analysis of the impact of oil on countries where it was discovered by asking some fundamental questions.

Why have oil exporters apparently been unable to translate their fabulous windfalls into self-sustaining, equitable and stable development paths? Are their disappointing outcomes the result of coincidental but similar decision errors in each country, or can they be attributed to an overriding structural determinism linked to petroleum that inevitably produces economic deterioration and political decay? In sum, what is the impact of oil booms on oil-exporting countries? (Karl, 1997, p.5-6)

For many years before Karl’s analysis economists accepted the concept of Dutch Disease to explain how bonanza type development in one sector of the economy causes problems in other sectors. The term was first use by the news magazine *The Economist* in 1959 to describe the situation which developed when gas was discovered off the coast of the Netherlands, but has since been applied to many other locations. For example new petroleum development or dramatic increases in oil prices would cause problems in the agriculture or manufacturing sector as capital and labour shifted to growth within the service sector. This shift of emphasis in the economy based on a non-sustainable resource leaves the country worst off after the resource is gone.

Karl contends that her study is different from these earlier theories in that she focuses on the manner in which policy choices are structured. Her general argument is;

Commodity led growth introduces changes in prevailing notions of property rights, the relative power of interest groups and organizations, and the role and character of the state vis-à-vis the market. These institutions changes subsequently define the revenue basis of the state, especially its tax structure. How these states collect and distribute taxes, in turn create incentives that pervasively influence the organization of political and economic life and shapes government preferences with respect to public policies. In this manner, long-term efficiency in the allocation of resources is either helped or hindered, and the

diverse development trajectories of nations are initiated, modified, or sustained.  
(Karl, 1997, p. 7)

As well as setting out the general theory Karl provides a detailed case study of Venezuela to illustrate the application of her theory to a petro-state and then broadens it again to examine the effect of booms in comparative perspective.

In her examination of the Venezuelan case she notes at the beginning that “petro-states are built on what already exists”. In Venezuela this involves a political culture characterized by the rule of a single strongman and the need for strong central authority. Oil had several impacts which exacerbate tendencies which already exist. Oil had the impact of: (1) retarding the development of a state’s ability to have functional public institutions; (2) it led to a higher centralization of authority in the executive; and (3) the expansion of the state created a permanent predominance of the public sector (p. 89- 91).

### **Methods:**

This is a case study of the province of Newfoundland and Labrador in relation to how oil development has impacted politics and public policy. It makes comparisons to other jurisdictions and uses Karl’s (1997) paradox of plenty as a theoretical framework. Policy documents, media reports, statements by politicians, exchanges in the House of Assembly and various other sources are used to construct an overall understanding of the impact on politics and public policy in the province.

There has been much academic debate surrounding the strengths and weaknesses of the case study approach (Ragin & Becker, 1992; Stake, 2005). Talking about the strengths of the case study many academics note that they support reflection, rethinking and allow the reader to judge what findings are applicable to their situation. Both Yin (1994) and Tillis (1997) highlight that this method enables researchers to explain both the process and outcome of a phenomenon through complete observation, reconstruction and analysis of the case under investigation. Stake (2005) categorized case studies into three types based on methodological orientation: intrinsic, instrumental, and collective. The intrinsic case study is undertaken to get a better understanding of one particular case. The instrumental case study is examined to “provide insight into an issue or to redraw a generalization” (p. 445). The collective case study is an extension of the instrumental study involving several cases. It is often difficult to distinguish between these various methodological orientations as Stake explained in describing the difference between the intrinsic and instrumental case study:

The case still is looked at in depth, its contexts scrutinized and its ordinary activities detailed, but all because this helps us pursue the external interest... We simultaneously have several interests, particular and general. There is no hard-and-fast line distinguishing intrinsic case study from instrumental, but rather a zone of combined purpose. (p. 445)

## **The Case:**

Before embarking on an examination of this case it is important to give some background and historical context on the jurisdiction to be examined. Newfoundland and Labrador has a sparse population of 514,536 (Statistics Canada, 2011) spread over a huge geographic area. The province is located on the east coast of Canada, with the island portion of the province located in the Gulf of St. Lawrence and the larger Labrador portion on the Canadian mainland. The total area of the province is 405,720 square kilometres, which is more than three times the total of the other Atlantic Provinces (Nova Scotia, New Brunswick, and Prince Edward Island). The early settlement patterns of the province were influenced by the reliance on the fishing industry, which resulted in most of the population being widely spread in small communities along the over 17,000 kilometres of coastline (O’Flaherty, 1999). The enormous but sparsely populated area of Newfoundland and Labrador, with its severe geographic and climatic conditions, has posed a number of challenges to the delivery of government services.

The Province has a history of economic hardship and an over dependence on the volatile fishing industry (Cadigan, 2009). The first permanent European settlers came as migrant workers involved in the summer fishery and started to overwinter in the fishing stations to protect onshore fish drying facilities. Over years the local population grew, government services evolved and the local economy expanded while remaining focused mainly on the fishery. Government had transitioned from administration by British naval officers to colonial status and eventual responsible government in 1855. Repeated attempts to diversify the economy in manners that had been successful in other jurisdictions in North America failed in Newfoundland and Labrador with the debt from railway construction and the WWI war effort placing a huge burden on the economy of the nation. With default on the debt being a real possibility and a British commissioned report condemning the political culture and administration of the country outside assistance was needed. In 1934 the government of Newfoundland agreed to be replaced by a non-democratic commission appointed by Britain. In 1948 the economy and the fiscal situation of the government had improved considerably and two referendums were held to decide if the province would continue as a commission, return to being an independent country or join the Canadian confederation. A very slim majority in the second referendum voted for union with Canada and Smallwood as the leader of the pro-confederate forces in the new province was soon after elected Premier and dominated provincial politics for the next 22 years (Gwyn, 1972; Horwood, 1989).

Oil exploration off the coast of Newfoundland and Labrador began with magnetometer and seismic refraction surveys conducted from aircraft in the 1960s. These surveys revealed that the offshore geology was different from that of the mainland and had potential for oil and gas. On February 4, 1966 in the House of Assembly Premier Smallwood announced the first “deep-water drilling” off the coast. His comments at that time started a long period of anticipation and a building of expectations that has lasted over three decades before the first oil production.

Mr. Speaker, I am quite sure that I speak for this House and for all Newfoundlanders when I say that our hopes and prayers will be with these people in their attempt to find oil and gas. If they find either, it is their plan to lay pipe lines along the ocean floor from the wells to the shore of Newfoundland. In that case Newfoundland herself would promptly become an extremely important oil centre in North America. (House of Assembly Hansard, Newfoundland, Feb. 4, 1966 afternoon session)

The first two wildcat wells drilled by Amoco and Imperial Oil did not live up to these expectations and the companies stopped to reconsider their exploration program (Western Miner, October 1983). In the Spring of 1971 Smallwood was again touting the enormous potential which existed in oil and gas during the budget speech in the House of Assembly.

Mr. Speaker, if Divine Providence put the oil and gas in the earth lying off our shores, and in the earth on this Island and Labrador, if these riches exist, they can be found and they can be developed. If they are found and developed then nothing is surer than this; namely, that Newfoundlanders are going to see an enormous new source of employment and wealth. (House of Assembly Hansard, Newfoundland, April 28, 1971)

The May 1971 edition of *The Newfoundland Government Bulletin* had on its front page a picture of the new drill rig SEDCO I which would resume active drilling off the coast of the province that summer. The Premier had visited Louisiana with a delegation from the Province to observe offshore oil activity and much of that edition was comprised of pictures of the Newfoundland delegation on this exploratory mission. There were also many facts and statistics about the importance of the petroleum industry to the economy of Louisiana and the potential it held in Newfoundland.

The activity off Newfoundland and Labrador in the early 70's was driven as well in part by the promising signs of oil and gas which were being shown near Sable Island off Nova Scotia (Meek & Beaton, 2010). An article in the *Globe and Mail* on February 19, 1973 illustrates the mood at the time and foreshadows the long and bitter dispute between the federal and provincial government over ownership and highlights the heightened expectations.

The prospect of Newfoundland becoming, virtually overnight, a prosperous and affluent province – from a classic have-not to a classic have – may sound like one of the wilder pipe dreams of Joseph Smallwood a few years ago, but in fact it is closer to reality than fantasy. (*Globe and Mail*, February 19, 1973)

The article also noted that even Smallwood's dispatch of two deep-sea divers to walk the floor of the Grand Banks and claim the resources there for the province could not diminish concerns about ownership of the offshore resources.

The first fears raised about jurisdiction issues happened in 1967 when the Supreme Court of Canada ruled that British Columbia did not own subsea resources off the west coast of the country. In the 1970s, prior to any commercial discovery off Newfoundland and Labrador, a small group of advisors in the provincial Department of Mines and Energy were developing a petroleum development policy. This assertive approach would be carried forward by Brian Peckford who was Minister of the Department before he became Premier. During the Premiership of Frank Moores a white paper and draft regulations were produced which claimed 75 percent of government revenues from offshore oil production and established claims on offshore areas.

By the end of 1974 there had been 40 dry holes drilled on the Grand Banks. This lack of success, the escalating drilling costs and jurisdictional disputes between the federal and provincial government slowed interest in exploration (*Western Miner*, October 1983). Despite a slowdown several new wells were drilled partly due to the incentives offered through the Petroleum Incentive Payments (PIP) exploration grants which were part of the National Energy Program. After the discovery of the Hibernia oilfield in 1979 and the real possibility of commercial development the wrangling between the Federal and Provincial governments intensified. Newfoundland formally claimed ownership of the resource, while the federal government maintained its position that it owned the oil fields.

While there was a brief glimmer of hope of a quick resolution in 1979 when conservative Joe Clark became Prime Minister and promised to treat offshore resources the same as those on land, this was dashed with the defeat of that minority government in February of 1980. The return of the Liberals under Prime Minister Pierre Trudeau signaled a period of bitter public bargaining and political manoeuvring. The first round of talks three months after the election between Newfoundland Energy Minister Leo Barry and his federal counterpart, Marc Lalonde ended in failure. During January and February of 1981 talks resumed but failed again. Barry resigned as Energy Minister over a dispute with Peckford on energy policy and shortly after his resignation crossed the floor of the House to become leader of the provincial Liberal Party. His replacement as provincial Energy Minister William Marshall met with Lalonde in October of that year but they were not able to reach an agreement and despite attempts by the Province to continue the discussions they were receiving no response from the federal government on new proposals. Recognizing his strong support at home in his battle with the federal government, Peckford called a snap election on April 6, 1982, asking for a mandate to negotiate with Ottawa. He won an overwhelming victory with 44 of the 52 seats in the provincial legislature.

His huge electoral success did nothing to quiet the political satirists writing in the provincial media in their year-end opinion pieces. Rex Murphy highlighted Premier Peckford's use of the dispute with Ottawa and the promise of future oil riches to deflect attention from current problems in the provincial economy. Writing about Peckford he says;

It seems, to me at least, that for a while he had come to regard the press conference in some uniquely private vein, as an instrument of economic recovery. For the press conference and in particular ventilations of high rage against Ottawa, seemed his only weapon in the combat with the province's daily declining industries and economy. (Murphy, This Week, Dec.20, 1982)

Another columnist, Ray Guy, known in Newfoundland and Labrador for his optimistic nature and cheerful disposition took to criticizing the government for not preparing properly for the impending boom. In one column he lamented the lack of proper money storage facilities in the province.

Can you imagine the mess when Glad Bags stuffed full of \$20s start to pile up in front yards and on sidewalks for want of proper storage. ... the terrible burden of riches will, I fear, be the most grievous problem facing us in the 1983. Yet still we hope. With the help of Providence, grinding poverty may continue to be ours. (Ray Guy, This Week, Dec. 20, 1982)

The federal government seemed to be similarly unmoved by Peckford's overwhelming victory in the election, there was no immediate change in the federal government's position if anything the dispute became more entrenched. On May 19, 1982, the federal government announce they would take the ownership issue to the Supreme Court of Canada. In response Premier Peckford declared a provincial day of mourning and encouraged everyone in the province to wear black armbands. The deadlock was again broken when in December of that year, new federal Energy Minister Jean Chretien remarked that there might still be some possibility for a negotiated deal for Newfoundland which was different from that reached with Nova Scotia. While talks resumed again and were initially optimistic during early 1983 they eventually came to a standstill later that year.

In 1983 during the bitter dispute for ownership Premier Peckford released a book, *The Past in the Present: A personal Perspective on Newfoundland's Future* where he outlined the key role which he thought oil and gas revenue could have for the future of the province.

In seeking a better standard of living, Newfoundland is equally determined to preserve a way of life. This province has the potential to lead Canada's economic in the future, as the West does today. ... Newfoundland is determined not to lose this opportunity, but we are equally determined not to repeat past mistakes. It is not so much the oil and gas itself that is important as what it can do to provide the wherewithal to revitalize the fishery and forestry industries on which the very survival of rural Newfoundland depends. (Peckford, 1983, p. 79)

The Supreme Court of Canada ruled in March 1984 that the sub-sea resources off Newfoundland belonged to Canada. While the Peckford government was dealing with the Trudeau Liberals and the consequences of the Supreme Court decision other events were occurring which would

change matters considerably. Brian Mulroney won the leadership of the federal Conservative Party in June, 1983. He and Premier Peckford met after that and reached a settlement on a proposed Atlantic Accord should Mulroney win the next election. This accommodating mood may have developed based on the critical support of both Peckford and Crosbie for Mulroney on the final ballot of the recent leadership convention. On September 4, 1984 Mulroney led the Tories to a huge election victory. Two months later Provincial Minister Marshall met the federal Energy Minister Pat Carney to work on the details of the accord. The pre-development round of the dispute between the Federal and Provincial government was resolved in February 11, 1985, when Prime Minister Brian Mulroney and Premier Brian Peckford signed the Atlantic Accord. The agreement gave both governments equal partnership in the management of offshore oil and gas resources and gave the province access to revenues from offshore development similar to those received by western provinces from land-based oil and gas. This agreement between the two levels of government cleared the way for the signing of the development agreement with the consortium of companies in 1990 to proceed with the development of the Hibernia oil field.

The Wells government came to power in April of 1989 and presented a less strident nationalism and more restrained optimism about the potential of oil for the province than that previously presented by Peckford. During his time in office Wells faced not only persistent economic problems of resource dependence which had troubled the province for decades but also extremely challenging problems in the fishery and other traditional industries (House, 1999). His newly elected government faced cutbacks in transfer payments from the Federal government and with the highest per capita debt and some of the highest tax rates in the country had very little room to maneuver in terms of fiscal policy. It was in the administration's third budget in 1991, before any oil revenue was available, that some of its most "severe" measures were introduced. The government imposed significant layoffs of 1,300 permanent employees, 350 part-time employees and 350 seasonal workers. Also 500 vacant positions throughout government would be eliminated. For those who managed to retain their jobs there would be a one year wage freeze. Throughout his administration Wells preached the balanced budget approach and the need to live within our means and the need to have the "political courage to restrict current expenditures to levels of current revenue" (Government of Newfoundland and Labrador, Budget 1991).

One of the few bright spots in the provincial economy was the Hibernia project which was in the construction phase. The \$5.2 billion project was going ahead and the oil companies had agreed to a gravity based system (GBS) which resulted in more jobs in the province. It was seen as the long awaited start of a new industry for the province and a new source of much needed revenue for the ailing economy. Given this glow of optimism around the project, the news in 1992 that Gulf Oil was withdrawing its 25% stake in the project and the project was in doubt became a matter of great concern in the province. Based on this development the remaining partners reduced expenditures and work on the project slowed as the search for a new partner went on. After a year, with no replacement partner being found for the Gulf Oil share the federal government agreed to purchase an 8.5% share in the project, a new partner Murphy Oil took a



6.5% share in the project and the remaining partners divided the rest of project. With oil prices hovering between \$13 and \$20 a barrel companies were still very doubtful about proceeding with the project. Without the huge government investment it is unlikely that the project would have proceeded when it did.

Despite the fact that Hibernia was producing oil when Williams came to office in 2003 because of the extremely low oil prices very few benefits were coming into the provincial treasury. In his first year of office he was fact faced with a severe fiscal situation which required the government bringing in wage freezes for public employees and cuts to some programs. As Williams challenged Prime Minister Martin during the 2004 federal election campaign and subsequently pressed the federal government to fulfil these commitments he tapped into politically popular themes in the politics of Newfoundland and Labrador. Possibly because of the minority government circumstances faced by the Martin Liberals, Williams was able to pressure the federal government for a more lucrative agreement on oil revenue. This victory which was further enhanced, when oil prices subsequently soared, resulting in huge amounts of revenue for the province. Later the nationalist crusade continued as Williams launched an attack on the minority government of Stephen Harper over the claw-backs of equalization payments related to the increasing oil revenues. This eventually led to a bitter Anything But Conservative (ABC) campaign during the 2008 federal election which resulted in no conservative MPs being elected in the province.

### **Analysis of the Newfoundland and Labrador case**

In examining the case of Newfoundland and Labrador we use the theoretical framework for the study and also the literature reviewed as a guide. Karl (1997) notes that oil development impact countries in several ways, exasperating tendencies which already exist. The “paradox of plenty” is that sudden riches from natural resource development often alter not only the economy of the state, but also government institutions, in ways which are often detrimental to the long term development of the producing jurisdiction.

As the provincial economy becomes more prosperous as a result of oil only a few people raise questions about the provinces dependence on oil revenue. In the most recent Audit of the Province’s Financial Statements the Auditor General noted that “there are concerns for the sustainability of current and future expenditure requirements and the impact on future generations of Newfoundlanders and Labradorians if sufficient revenues are not available so that these requirements can continue to be met” (Government of Newfoundland and Labrador, Auditor General’s Report, January 2012). For the year ending 31 March 2011, 37.6% of all provincial source revenues came from oil royalties and the Auditor General noted this revenue source is highly volatile and subject to the possibility of significant fluctuations in world oil prices, production and foreign exchange. The report also noted that diversification of the economy is important to the future of the Province and that this is especially true given the volatility of oil revenue and the fact that oil is a non-renewable resource. Despite this fact that

government budgeted \$200.2 million over the last five years for programs related to diversification (Business Attraction and Comprehensive Economic Development) over the last five years, the actual expenditure totalled only \$60.5 Million, or 30% of the amount budgeted.

The examination of this case illustrates the growing assertiveness of the provincial government in dealing with both the federal government and oil companies. Comparing the Hibernia and Hebron situation shows how international events greatly influence the provincial government's ability to achieve its objectives. The events around the start of Hibernia show how the region was vulnerable to uncontrollable international events. These events demonstrate how the province can be negatively impacted by these events as well as the positive impacts evident especially in the period leading up to the Hebron development agreement. A statement from the Provinces 2007 Energy Plan demonstrates the provinces recognition of its strong bargaining position in relation to future development.

Throughout the world, oil and natural gas are becoming increasingly strategic commodities. Conventional petroleum production in many countries is maturing or is in decline. Complex geopolitical issues affect other major producing areas, such as those in the Middle East and Russia. At the same time, world demand for energy continues to rise. (Government of Newfoundland and Labrador, 2007 Energy Plan, p.16)

There is also evidence of a growing dichotomy between regions and between the rich and poor in how they are impacted by oil development. It is interesting to note a shift in the policy statements and practice of the Williams and Dunderdale administrations from the statements and practice of the Peckford administration. The statement in his 1983 book, which was also reinforced in government documents, in relation to using oil revenues to support traditional industries such as forestry and fishing and sustaining the rural way of life is no longer emphasized in the policy statements of the later administrations. In the 2003 PC Blue Book the connection between oil revenues and investing in rural areas of the province is less explicit.

Newfoundland and Labrador, in common with other resource rich Canadian provinces, want to maximize benefits from our geological inheritance in order to end our revenue dependence on Ottawa. We also want to develop oil and gas systematically to get long-term benefits for all citizens of the Province through investment and employment opportunities and tax reductions. (Progressive Conservative Party, 2003, p.30)

In the section of the 2011 PC policy book which deals with oil and gas the focus is on efforts to "maximize benefits over the long term" (Progressive Conservative Party, 2011, p.26) and there is no mention of using revenue from the offshore to sustain rural areas of the province. These nuances in language and emphasis may be considered superficial but a further examination of government policy shows a similar contrast in policy practice. For example during the cash

strapped days of the Peckford administration in 1983 when the closure of a fish plant in Burin was announced the government came forward with revenue for a rescue plan. When the same plant was slated for closure this year, government did not seek to keep it open through further investment of public funds.

There is also evidence that government spending practices is rising to meet the public demand which exists based on expectations which had been raised in the period preceding increases in oil revenue. The provincial budget of 2006 was in stark contrast to the austere budgets which preceded it which involved cuts and cancellations of government programs. For one of the few times in the history of the province the budget was showing a surplus rather than a deficit because close to a billion dollars in expected offshore oil income. In 2007, an election year, the Minister of Finance delivered what the media refer to as a “crowd-pleasing plan” reducing personal income tax from the highest in Atlantic Canada to the lowest in Atlantic Canada as well as cutting other taxes and fees. While noting that the tax cuts were made possible by the \$1.7 billion forecasted income from non-renewable resources the Minister of Finance acknowledged to reporters that the province’s long-term problems remain worrisome (CBC News, April 26, 2007). In 2008 government was able to follow through on promises it had made to public sector employees with a pay raise of 21.5% over four years. In 2009 the government announce over \$900 million in infrastructure funding and in 2010 the government announced a continuation of its infrastructure program involving over \$1 billion in expenditures. Despite the cautions about debt levels, expenditures by the provincial government have almost doubled over the last 10 years from just over 4 billion in 2002-03 to the over 8 billion estimated for this fiscal year.

One trend which Karl (1997) noted in her examination is that towards mega projects as a way of using oil revenue. For example during the building of “La Gran Venezuela” in Venezuela, state planners were frequently told that the projects they had designed were too modest and were encouraged to “think big”(p.125). One of the major projects which exhibit this trend in Venezuela, towards mega projects, was the expansion of hydroelectric capacity. In Newfoundland and Labrador government is coincidentally also pushing forward with plans for the \$6.2 billion Muskrat Falls hydroelectric project in Labrador.

The centralization of power was another trend which Karl (1997) suggest develops as a result of a huge increase in oil revenues. While these one-sided victories are nothing new in Newfoundland politics the use of oil development and revenue to eliminate political opposition at home was most evident during the Peckford and Williams administrations. As Karl (1997) would contend what happens with the politics of a jurisdiction during an oil boom is based on the structures and practices which existed before its exploitation. It is evident that there have been many lopsided victories and authoritative figures in Newfoundland’s past. Smallwood is often portrayed in this way (Horwood,1989; Pottle, 1979) and it is evident from the way he dominated politics in the province for 22 years after confederation with Canada. Whereas part of Smallwood’s source of power was his close relationship with the Federal government and his ability to control funds transferred to the province from this source, both Peckford and Williams

skillfully presented themselves as the deliverers, sources and protectors of oil revenue in a world where outsiders were trying to deprive the province of its just benefits. After Premier Williams signed a deal with the Federal government he soared to unprecedented heights in public opinion polls with a Corporate Research Associate survey showing an 86% satisfaction rate (CBC News, March 8, 2005). Further evidence of a centralization of power can be found in the lack of activity among standing committees of the House of Assembly and the lack of a functioning Public Accounts Committee (Green, 2007). Others point to the growing influence of the provincial own energy corporation, Nalcor, within the provincial government and its lack of public accountability.

### **Questions for Further Analysis**

Our preliminary analysis of the material present above indicates that the situation in Newfoundland and Labrador fits many of the patterns outlined in by Karl (1997) in her concept paradox of plenty. It also indicates an increase in nationalistic tendencies in the province similar to that which has been evident in other oil producing areas. However this is only an initial examination and further evidence needs to be examined to verify these finds and more fully understand the situation as it relates to oil development in Newfoundland and Labrador. Below are some questions which could be used to guide further research into this area.

- Have the development plans articulated in the 70s and 80s been followed? Have the Peckford vision of using oil to sustain the traditional way of life happened? What is the evidence in relation to oil's impact on the sustainability of rural communities?
- Writing at a time before first oil in offshore Newfoundland and Labrador Larry Pratt was very critical of the NEP, but now 27 years later it would be useful to re-evaluate some of his assertions about the NEP from the perspective of Atlantic Canada.
- How has the Nationalist mood in the province changed since the 70's and 80's and how has this impacted federal-provincial relations? Has the province been able to have more influence at the national level because of its new wealth?
- How much do uncontrollable international events determine the success of the provinces ability to press its case with the federal government and oil companies? Based on an understanding of these factors could the province maximize its success by tailoring its demands based on circumstances and proper timing?
- How does the province work with other provinces within the federation to exert pressure on the federal government to achieve its objectives? Given the attempts of the new Premier of Alberta to have a dialogue about a new Energy

Policy it would be timely to explore these issues from the perspective of Newfoundland and Labrador.

- How do events in National politics such as minority government situations or good working relationships determine the ability of the provincial government to press its case successfully?
- Given the tendencies and circumstances of Newfoundland and Labrador what can be learned from other jurisdictions such as Alberta, Norway, Scotland, countries in the Middle East, Venezuela or countries in Africa. What lessons can be learned by the province in terms of controlling expenditures, capturing spin-off opportunities and positioning the province for the time when the resource revenues are exhausted?

### **Conclusion:**

The randomness of nature and developments in the world economy has resulted in a valuable resource being located off the coasts of Newfoundland and Labrador. Politics and public policy decisions taken by the government of the province will determine in many ways the lasting impacts which will result from this non-renewable resource. This paper has highlighted some pitfalls which have led to oil being a curse in some jurisdictions and it highlights some commonalities which can be found in the case of Newfoundland and Labrador. Unlike the series of events which led to the development of this resource the policies for its development need not be random and uncontrolled.

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