Conflict over the Hebron Development

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Discussions between the Newfoundland and Labrador government and a group of oil companies who hoped to develop the Hebron Ben-Nevis oil field, in the northwest Atlantic off Newfoundland have come to an end without reaching an agreement regarding the development of the field. This is the second time plans to develop the Hebron field have stopped. The first was back in 2002 when oil prices were too low to make it a financially viable project. This round's halt resulted from the inability of the government and the oil companies to reach a mutually agreeable development plan.

The Hebron oil field was first discovered in 1981 and is thought to hold approximately 700 million barrels of oil. The field is operated by Chevron, which holds 28% ownership in the project. ExxonMobil is the majority owner with 37.9%. Other owners are Petro-Canada with 23.9% and Norsk Hydro with 10.2%. The Hebron field consists mostly of heavy crude oil, which is more expensive to extract and sells for less than the oil from currently producing fields in the province.

The clash between government and industry on a development plan springs from Danny Williams's (Premier of Newfoundland and Labrador) desire to maximize the province's benefits from the development of the Hebron field. He insisted that the current generic royalty regime be altered so that more royalties could be gathered during times of high oil prices. He was also determined that the province have an equity stake in the project and that another oil refinery be built in the province. Subsequently, the demand for an additional refinery was withdrawn.

Development plans for previous projects were all case specific, based largely on the economic situation in the province at the time. The Hibernia field was developed when oil prices were low; thus, less emphasis was placed on royalty gains and more on maximizing the number of jobs created (Lono 2006: par 2). On the other hand, Terra Nova was developed so that more royalties could be acquired. Following these projects, a generic royalty system was established with the goal of creating a consistent and less risky investment arena for oil companies. This generic regime was used for the White Rose project. However, because Hebron is mostly heavy crude oil, it was suggested that the generic regime be altered in order to encourage development.

The oil companies state that the development plan they had been working on with government would have included building a structure similar to that of Hibernia. This, they argue, would have produced even more jobs than if another floating production system like Terra Nova were built. Estimates were up to 5 billion dollars Canadian for the Hebron project (Cattaneo and Harding 2006a: par 4) and 3-5 years of construction jobs (Stevenson 2006: par 28).

Not long before the talks collapsed, Williams seemed optimistic that a deal would be reached. However, he claimed that problems arose when the oil companies asked for 400-500 million dollars worth of tax breaks. This was something to which Williams was not willing to agree (Park 2006: par 8). On the other hand, the oil companies claim that problems are the result of William's desire for an equity stake in the project.

Williams suspects that ExxonMobil is to blame for the negotiations stopping. This would not be the first time the company has exhibited such behavior. In a similar fashion, Exxon sold its stake in one of its Venezuelan oil fields, in December 2005, rather than accept new legislation requiring that the government receive more royalties and a majority position in all projects.

Williams believes that the remaining companies are still interested in moving forward with the Hebron project. Thus, he would like ExxonMobil to sell its share in the field either to these companies or to the province so that the development can proceed. If ExxonMobil is not willing, Williams says he is ready to pursue the enactment of legislation that would force it into these actions. The legislation would take away the right to develop a field from a company that did not develop it within a certain period of time. The field would then be turned over to the Crown so that it could be developed (Auld 2006: par 6). Similar legislation exists in Alberta, where companies have a time limit to explore and produce oil (Sallot and Brethour: par 8).

Williams had hoped to gain the support of the Prime Minister (Stephen Harper of the federal Conservative Party) for implementing this legislation in Newfoundland. However, the Prime Minister expressed his desire to keep the federal government out of it, stating that he hoped the matter could be resolved between the provincial government and the oil companies.

Concerns that William's plan could spur a NAFTA (North American Free Trade Association) case have been expressed. NAFTA allows companies to sue when they lose profits on account of expropriation. If Williams proceeds with the expropriation legislation, it is possible that ExxonMobil could sue through NAFTA.

The future of the development of the Hebron oil field anytime soon looks dim. Chevron has dismantled its team and sent it away to work on other projects. Thus, it is not likely that talks will soon begin anew. Even if talks were to resume, it would take about two years to get the Hebron project moving again (Cattaneo and Harding 2006 b: par 16).

Some claim that this breakdown in talks could be detrimental to the future of Newfoundland's offshore development. For one thing, the hard stance taken by

Danny Williams could act as a deterrent to other companies hoping to come to Newfoundland. The situation has created instability; changing the generic royalty regime that was originally in place to create stability creates insecurity, which is unattractive to investors. Companies may decide not to take the risk and go elsewhere.

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