

Submission to the Strategic Trade Policy Unit on Potential New Measures to Advance and Defend Canada's Economic Security Interests

September 23, 2024

Contact: Charlene Johnson, CEO
cjohnson@energynl.ca
100 New Gower Street, Cabot Place
Suite 902
St. John's, NL A1C 6K3 2



Introduction

Energy NL was founded in 1977 to represent the supply and service sector of the energy industry. Today Energy NL represents over 500 member organizations worldwide which are involved in, or benefit from, the energy industry of Newfoundland and Labrador. Energy NL members are a diverse representation of businesses involved in a range of activities related to both renewable and non-renewable energy development, construction, and operations. This includes, but is not limited to, areas such as direct offshore and onshore supply, health and safety equipment and training, engineering solutions and fabricators, law firms, and human resource agencies.

Energy NL is pleased to have an opportunity to provide this submission to the Strategic Trade Policy Unit. The submission from Energy NL will discuss Canadian energy supply and security, with a focus on Newfoundland and Labrador's offshore and onshore energy capabilities.

Energy security in Canada

Canada's supply chain resilience is a priority for ensuring economic security at the national level. Energy plays a critical role in the supply chain. Early during the COVID-19 pandemic, and again at the onset of Russia's invasion of Ukraine, Canadians witnessed prolonged disruptions to the energy sector, which challenged energy security worldwide. Uncertainty created by ongoing global conflicts, international elections, and a variety of other circumstances necessitates a varied Canadian energy mix with multiple energy pathways across the country. What has become clear over the past five years is that a degree of national self-sufficiency must be prioritized, which, for the Canadian energy sector, is a viable possibility.

Newfoundland and Labrador has a unique position as a lower carbon energy-producing province with both renewable and non-renewable projects, including offshore oil and gas as well as onshore wind-hydrogen capabilities. To address economic security vulnerabilities, Canada's supply chain priority must be accessible, affordable, and reliable energy – which Newfoundland and Labrador can help provide. A strengthened, varied supply of Canadian energy can contribute to Canadian competitiveness and self-sufficiency.

Newfoundland and Labrador's energy supply

Newfoundland and Labrador is rich in varied natural resource solutions that can meet Canada's energy needs as well as its climate commitments. Canada has committed to achieving net-zero emissions by 2050, and yet even with the ongoing push towards renewable fuels, Canada's leaders know that we will continue using fossil fuels in a carbon-neutral world. In July, 2024, when attending a Federal-Provincial-Territorial environment ministers meeting in St. John's, Steven Guilbeault, Minister of Environment and Climate Change Canada, was quoted by the Canadian Press as saying, "We will continue using fossil fuels in a carbon-neutral world in 2050. We will be using far less fossil fuels, whether it's oil or natural gas, than we're using today, but they will still play a part in our energy portfolio in a carbon-neutral world."

Newfoundland and Labrador's offshore oil and gas sector produces a lower carbon-emitting product at 30% below the global average at extraction and does so with leading ESG standards. We are at the beginning of a wind-hydrogen industry, which will, in part, connect Canadian hydrogen exporters with international buyers. Additionally, according to Newfoundland and Labrador Hydro's 2023 Annual Report, there are almost five gigawatts (GW) of untapped renewable hydroelectric potential within our province, which will play a key role in powering Newfoundland and Labrador and beyond.

Newfoundland and Labrador can connect and supply energy globally. And yet, there is significant untapped potential when it comes to national energy supply opportunities. In the face of global energy uncertainty, a degree of self-sufficiency is ideal. Canada could supply itself with an abundance of energy in addition to its exports, by increasing oil and gas production, continuing to invest in renewable energy projects, and facilitating domestic energy supply nationally with Newfoundland and Labrador as a major supplier.

Economic impacts and benefits

To provide important financial context to this submission, it is critical to outline the financial benefits and impacts of the Newfoundland and Labrador energy sector.

Oil and Gas

In 2018, Energy NL commissioned an economic impact report regarding the offshore oil and gas industry. While the information is now approximately six years old and Energy NL is working on updating the report, the context of the staggering impact of the sector on the Newfoundland and Labrador remains relevant. At the peak of the industry in 2007, \$9.5 billion of Newfoundland and Labrador's GDP was derived from the oil and gas industry. The GDP contribution was within that contribution level for seven years.

In 2017, the oil and gas industry generated 23,500 full-time equivalent jobs in the province (including direct, indirect, and induced jobs). This resulted in approximately \$2 billion in labour income – which is 15 per cent of the provincial total – and \$1.45 billion in consumer spending. The industry generated \$973 million in capital expenditure, \$920 million in royalty payments, and over \$1.4 billion in total tax and royalty revenue. The study also demonstrated significant economic impacts for Canadians. For every direct job in Newfoundland and Labrador in the oil and gas industry, 1.8 jobs are created in Canada. \$755 million in labour income, \$561.5 million in consumer spending and \$680 million in tax revenue was generated in the rest of Canada in 2017 as a result of the offshore oil and gas industry. By 2033, every direct job in Newfoundland and Labrador's oil and gas industry is expected to create 2.3 jobs in Canada. Forecasted impacts include \$1.6 billion in labour income, \$1.2 billion in consumer spending, and \$3.3 billion in tax revenue, all in the rest of Canada.

An economic impact report prepared for Energy NL by Jupia Consultants Inc. in 2022 illustrates the value of a future project, Bay du Nord. Using an estimate of production of one billion

barrels, the Bay du Nord project being developed by Equinor can expect to boost Canada's GDP by \$97.6 billion and create or sustain 13,800 jobs. Most of these jobs would offer above-average wages. While Newfoundland and Labrador would be the largest beneficiary, with \$82 billion in GDP and over 8,900 jobs, Bay du Nord would benefit all of Canada. For example, Quebec would see a GDP boost of \$2.6 billion and over 900 jobs, Ontario would see an additional \$7.2 billion in GDP and over 2,200 jobs, while Alberta would see \$3.1 billion in GDP along with almost 700 jobs.

Government revenues across Canada would also rise, which means a Newfoundland and Labrador project would provide more money to pay for health care, education, and other social priorities. Over the life of the project, Bay du Nord can expect to generate \$11 billion in taxes and another \$12.8 billion in revenue from royalty payments for Newfoundland and Labrador. Meanwhile, the federal government would gain \$10.7 billion in tax revenue. Provinces and municipalities outside Newfoundland and Labrador could expect to see \$2.8 billion in tax revenue because of Bay du Nord.

Wind and Hydrogen

In 2024, Energy NL in partnership with econext, and with funding from Natural Resources Canada's Clean Fuels Awareness Fund, commissioned a study led by Jupia Consultants Inc. into the economic potential of the green hydrogen industry in Newfoundland and Labrador.

There are six projects currently under development across the province. The projects on Crown land include: EverWind NL's Burin Peninsula Green Fuels Project near Marystown in southern Newfoundland; Abraxas' Exploits Valley Renewable Energy Corp. in northcentral Newfoundland near Grand Falls-Windsor; ABO Energy's Toqlukuti'k Wind and Hydrogen Project in eastern Newfoundland near the Come By Chance refinery and Project Nujio'qonik, led by World Energy GH2, in western Newfoundland. There is one other project being developed by Pattern Energy at the Port of Argentia in eastern Newfoundland. At the time of its completion, the Jupia Consultants study did not include the recently announced Wind Hydrogen Hub Land Reserve established for North Atlantic Refining Limited's Green Energy Hub.

An average green hydrogen project is expected to generate \$336 million in tax revenue for the provincial government over the capital investment (CAPEX) phase of the project. The federal government can expect \$274 million and municipalities another \$45 million. If all five projects go ahead, the CAPEX phase of the industry's development will boost provincial tax coffers by \$1.68 billion, the federal government will see \$1.37 billion (just from spending in Newfoundland and Labrador) and municipal governments will benefit from \$224 million in tax revenue, or an average of \$22.4 million per year over the 10-year timeframe.

After the wind energy infrastructure is deployed, hydrogen and ammonia production facilities are constructed and other infrastructure is in place, the operations (OPEX) phase associated with the average green hydrogen project in Newfoundland and Labrador is expected to boost provincial GDP by an annual average of \$190 million (in \$2024) for the next 30 years.

Municipal governments across the province will generate an average \$3.7 million in annual tax revenue just from operations and the federal government is expected to generate an annual average \$53.9 million (net of tax credits). The operations of the average project will generate an estimated \$199 million per year for the provincial government in tax and royalty revenues.

Assuming this tax/royalty revenue is invested in public services across the province, the activity associated with health care and education services along with public administration services will boost provincial GDP by another \$204 million, support another 1,950 full time equivalent (FTE) jobs and \$147 million employment income. An additional round of taxes will be induced including \$5.0 million for municipal governments, \$17 million for the federal government and \$25 million for the provincial government.

Economic security and the energy sector

Maintaining Newfoundland and Labrador's status as a globally preferred location for economic investment is key, and the province's energy sector is a clear catalyst for attracting global investors.

Programs by the Government of Newfoundland and Labrador such as the Offshore Exploration Initiative and the Green Transition Fund, and Government of Canada investment tax credits for renewable energy projects are key examples of incentives that drive investment in Newfoundland and Labrador and expand the energy industry, benefiting Canada as a whole. A boost in federal programs of equal merit can address economic security vulnerabilities by encouraging investment, therefore improving Canada's competitiveness on the global stage.

To balance national security and prosperity, the federal government's considerations on Canada's economic security interests must include a commitment to leveling the playing field for Canadian industries in the global market. Newfoundland and Labrador's wealth of project development and energy supply opportunities requires ongoing commitment, investment incentives, as well as clear, concise, consistent, and competitive policies that encourage development of both renewable and non-renewable energy options.

Conclusion

Canada's energy security risks can be greatly mitigated by meaningful, ongoing investment in Newfoundland and Labrador's energy industry, including offshore oil and gas, wind and hydrogen, and hydroelectricity, as well as a commitment to current and new programs and policies that incentivize operation in the province's energy sector.

Newfoundland and Labrador's energy supply can help meet Canada's energy needs as well as its climate commitments. The federal government should consider the province's capabilities to connect and supply energy nationally and globally.

By increasing production of a lower-carbon offshore oil and gas product, continuing to invest in renewable energy projects, and facilitating domestic energy supply nationally with

Newfoundland and Labrador as a major supplier, Canada can achieve a degree of self-sufficiency in a continuously uncertain time for energy security.