

## Offshore Drilling: Where do we go from here? *By Phonse Fagan*



Wave your finger in the economic wind and you come away with a conflicting sensation of optimism and uncertainty. In St. John's, at least, we seem to have dodged the worst of the recession, but the airwaves still run rife with the threat of a "double dip". There are plenty of potential triggers for the feared apocalypse – such as European/American debt, the onset of the Boomer squeeze on the social safety net, and the great unknown. The stock markets are as moody as the Newfoundland weather.

But what are we to make of the NL oil industry? St. John's and environs has been on the upswing since the Hibernia deal and is still cruising nicely. The Provincial treasury has been paying down the debt. We even have indications of significant new discoveries after a long drought, which may carry us forward beyond Hebron. And ongoing, under the radar on the west coast of the island, we have the most significant exploration effort in that area's history. So there are lots of pluses in the local scene, but the bigger picture is murky. Troublingly, as we are finally getting out of the red and into the black, the game is changing. Peak oil (yes it's coming if not here already), global warming (yes again), and now the BP blowout.

Let's look at each one. "Peak oil" means a higher price per barrel which drives up the cost of everything, but also increases royalties and stimulates exploration and development. A double edge on that one. Climate change - yes we have to do our bit. At some point down the road we must wean ourselves off burning hydrocarbons, but in the meantime - party on. Oil and gas still account for 60% of the world's energy consumption, and coal (the solid hydrocarbon) makes for 25%. So the time may come when every roof shingle is a solar cell, and every parking metre has an electrical outlet, but the transition to the Post-Petroleum Age is likely to take a few decades. The BP blowout is a more immediate game changer. There have been some 50,000 wells drilled in the US Gulf of Mexico, of which about 4000 are in deep water (> 1000 feet), mostly with no major problems. But even one oil blowout makes an awful mess! Obviously the associated pollution is horrendous and governments and citizens have every right to be alarmed. A similar event happened in the Gulf thirty years ago, but did not trigger the same large scale outrage, as it was located across the border in Mexican waters, and was not broadcast live on CNN. The good news is that the Gulf came back from that spill, as did the North Atlantic from the numerous tankers that were torpedoed in WW2. Lest I be misunderstood here I must stress that the previous sentence provides no justification for complacency. But the reality is that our present economic success is very dependent on offshore drilling. Notwithstanding our purchased interest in offshore fields, the citizens of this province are in fact partners in offshore drilling, as we collect royalties and taxes from the oil industry to build roads, schools and hospitals. Because of these benefits our government attends oil shows and supports research to encourage offshore drilling. Where do we go from here? We have drilled 355 wells in the NL offshore so far, with a respectable environmental track record. We need to keep doing the things we've been doing right and maintain a culture of constant improvement.

*Phonse Fagan is an oil and gas consultant (A.J. Fagan Consulting) based in St. John's. He also teaches the course "An Introduction to the Petroleum Industry". For contact information visit [www.petro-ed.com](http://www.petro-ed.com)*