CRAIG STEWART, WWF-CANADA SPEAKING NOTES
to the
HOUSE STANDING COMMITTEE ON NATURAL RESOURCES
STUDY on OIL AND GAS

Ladies and Gentlemen, thank you for the opportunity to present this morning. The BP Deepwater Horizon rig which exploded and sank in the Gulf of Mexico on April 20 was an exploratory drilling platform. If there is any good news about the ensuing oil spill, it is that emergency responders had a full month to contain the oil before it washed ashore in the environmentally sensitive marshes and wildlife sanctuaries of Louisiana. Of course they failed. However the only reason they had any grace was due to a full regulatory process informing whether to drill, where to drill and how to drill. The lease did not directly occupy an environmentally sensitive area.

Please refer to chart 1. Greenland, Norway and the U.S. all have regulatory processes governing both the leasing stage (deciding whether to allow a drilling program and where to allow it) and the exploration stage (deciding how to drill). Canada's regulatory process only kicks in half-way through - at the exploration stage.

Two weeks ago, committee members asked witnesses how Canada's regulatory process differs from that in the U.S. Please allow me to answer that question.

If you refer to map number 1, you can see Shell's leases in the U.S. Beaufort and BP's recent leases in the Canadian Beaufort. These leases are about 400km apart in distance but light years apart in the regulatory process guiding their placement and exploration. I'm not going to talk about the development stage here – only exploration – because that is the risky phase the Deepwater Horizon was in when it exploded.

The American process that led to Shell's permit is fully regulated pursuant to the *National Environmental Protection Act*. It started in 2003 when the Mineral Management Service (MMS) probed **whether** to open up portions of the Beaufort coast to exploratory drilling. The agency completed this four volume regional environmental impact statement that established:

i. whether leasing should occur at all

ii. which leasing alternative would be preferable from an environmental and socio-cultural perspective;

iii. the environmental consequences of leasing and,

iv. the likely trajectory of an oil spill given currents, prevailing winds and landforms.

The MMS also completed this comprehensive risk analysis that detailed the probability and implications of an oil spill in the Beaufort.

The MMS had decided at this point WHETHER and WHERE to allow drilling – they designed lease #195 the following year and refined its environmental assessment to the local scale, producing this document. Shell purchased the rights to an array of very specific parcels in 2005 and submitted an exploration plan dealing with HOW they proposed to drill, accompanied by this further 'operational' environmental assessment customized to its proposed activities in 2007. Shell filed a Regional Exploration Oil Discharge Prevention and Contingency Plan in 2007, then a full Oil Spill Response Plan in 2009. All of the American processes are transparent, with opportunity for full public consultation and the resulting documents are in the public domain.

You should note that all of Shell's regulatory submissions were informed by, streamlined and benefitted from this stack of environmental information compiled by the MMS in 2003-2004.

Now for the Canadian side. The Canadian process that led to BP's Exploration Licence started in the spring of 2007 with:

i. a nomination process initiated by staff at Indian and Northern Affairs Canada. Using maps generated from previous industry nominations, they consulted local Inuvialuit communities and other government departments. Based upon these results they issued a call for industry nominations for lease areas in autumn 2007.

ii. Once industry nominated which areas they were interested in, INAC refers to an innovative Petroleum and Environmental Management Tool which contains maps of habitat for species such as polar bear, ringed seal and bowhead whale, their sensitivity to oil spills as well as geological potential to determine whether the likely economic opportunity outweighs the environmental risks. It appears to always do so. The process is not documented so I will use the guide to that system to stand in for the documentation.

Requests for bids were developed and posted in February 2008. Four months later, in early June, the sealed bids were opened and the lease awarded to BP, the highest bidder.

The entire Canadian leasing process up until requests for bids are posted is unregulated and subject to ministerial discretion. On this basis, BP is granted its exploration licence, a contractual relationship where the company commits to spend its bid amount – 1.2 billion dollars - within five years to drill its first exploratory well. Now at this point, the key decision on WHETHER to allow drilling and WHERE to generally allow it has been taken.

Now, the NEB process commences, governing HOW exploration takes place. BP hasn't had time to go through the full NEB process so to be fair I will use materials from Devon Corporation to

represent BP's filings. Devon searched for gas in the offshore Beaufort, and struck oil instead in 2007. The NEB requires a checklist of approvals and authorizations laid out as their *Drilling Program Authorizations under the Canadian Oil and Gas Operations Act.* These requirements include development of a safety plan, an oil spill response plan and an environmental protection plan and the NEB conducts an environmental screening. But of all these, the most extensive requirement was the comprehensive environmental assessment like this one prepared by Devon. The Inuvialuit also administer a separate environmental screening process and Devon's submission to that process was simply a scaled down version of this. Although this comprehensive assessment is similar to the 2007 Shell document Devon's is the last - it is no longer required in Canada.

BP will develop an oil spill response plan. I would use Devon's plan to stand in for this however in Canada these plans are confidential and not open to public scrutiny. We do know that Devon's worst case scenario was a blowout lasting 7 days before being capped.

BP's regulatory submissions, including its oil spill response plans, do not benefit from the extensive regional information base afforded to Shell in the U.S. Yes it's true that a wealth of such biophysical information was created by Dome, Gulf and Imperial in the 1970s and 80s however when Devon tried to reuse this information in 2003 they found it not fit for purpose and recreated it for their study area. And the Beaufort is the only region in the Arctic where we have a robust information base at all.

Strictly speaking, when politicians compare NEB processes to their counterparts in the U.S., they are correct – the regulations on how to drill are somewhat comparable. The oil spill regulations in the U.S. are 16 pages long, in Canada they are 3 pages long. However that's only part of the story. INAC's unregulated part of the process is NOT comparable to its regulated counterpart in the U.S. and Greenland. And this is the result. Please see map #2. Exploration licenses are distributed throughout the Beaufort irrespective of Environmentally Sensitive Areas. Should a spill occur, there would be IMMEDIATE damage in these areas – we'd have no grace to clean it up.

Now this deficiency is well recognized by the federal bureaucracy. Over the past three years they have designed a process called a Beaufort Regional Environmental Assessment which would be analogous to and even better than what the MMS did in 2003. The Inuvialuit supported it, industry supported it, we supported it, the federal departments supported it and the government killed it in Budget 2010.

Similarly, DFO and the Inuvialuit have co-led the Beaufort Sea Partnership, joined by CAPP, WWF, the Governments of the NWT and Yukon and a host of federal departments. That Partnership completed a plan in June 2009 for co-managing the Beaufort Sea. It would address

some of the regulatory gaps I have identified however it remains unfunded and unauthorized by the Minister.

So – to summarize – unlike the United States, Greenland and Norway, Canada lacks a regulatory process governing whether and where oil and gas development proceeds in the Arctic. As a result, we give out exploration licenses and bind oil and gas companies to significant contracts BEFORE the NEB steps in to regulate how drilling is to proceed. As a result and in contrast to the U.S. we give oil and gas companies broad license over significant tracts of ocean including environmentally sensitive areas. As a result should a blowout and spill occur in those areas, an operator has little time to contain the oil before damage is done.

The first marine protected area proposed for the Beaufort – a Beluga Whale Sanctuary which has just been gazetted – has an operating gas well deep inside its protected zone and can be criss-crossed by pipelines.

WWF does not believe an NEB enquiry alone can address these issues which stretch beyond its present jurisdiction. The NEB is placed in a potentially untenable position when a $1.2 billion contract which requires a well, results from an unregulated process before their regulatory administration even begins. Furthermore, the NEB does not have jurisdiction over all offshore waters.

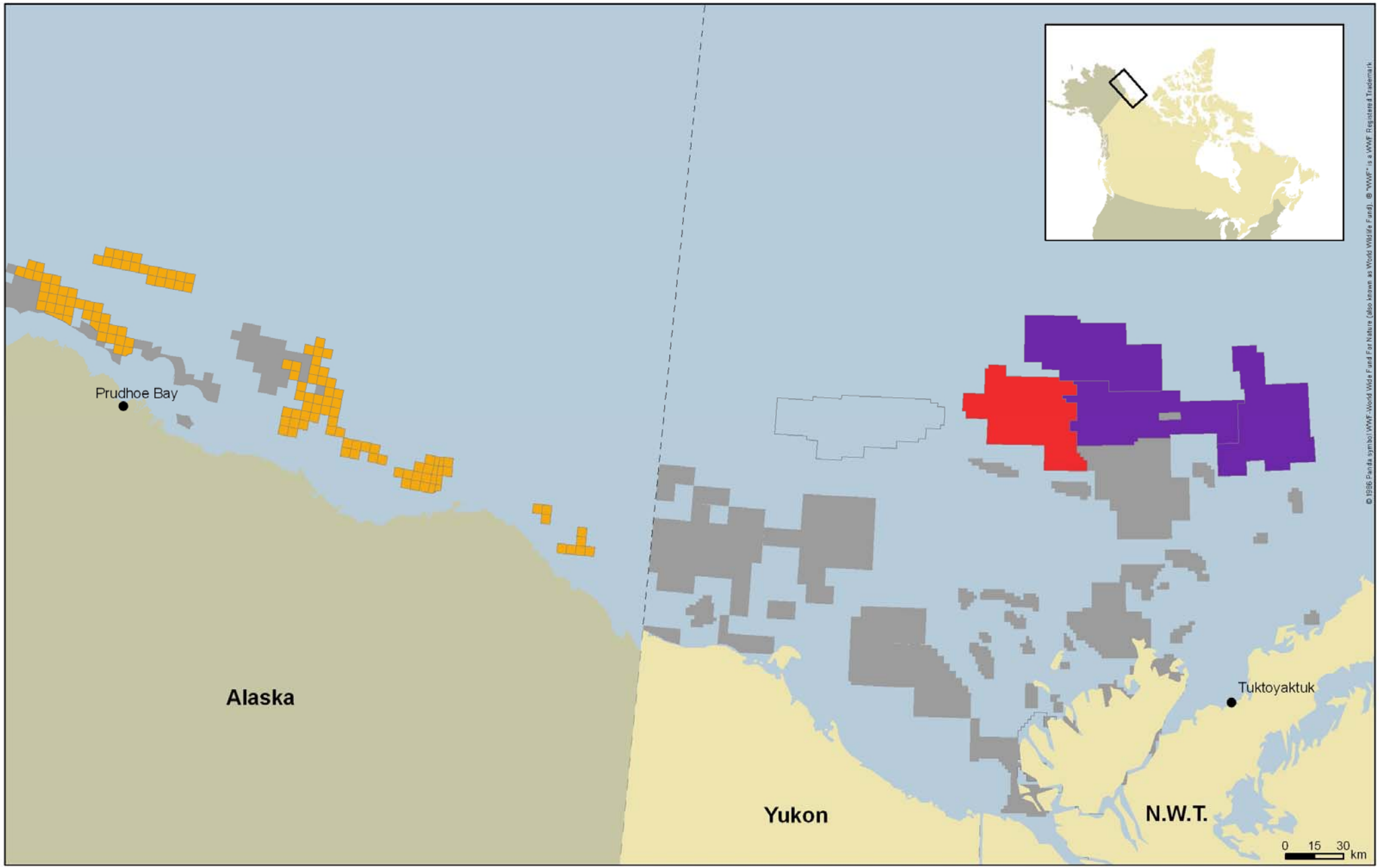
Canada needs a consistent set of regulations that safeguard our environment, our coastal communities and our other industries AND that apply to leasing, exploration AND development from coast to coast to coast. If the NEB cannot choreograph such a nationally inclusive process, then a time limited commission of inquiry should be struck with the purpose of raising Canada's oversight of offshore oil and gas management at least to standards set by the Arctic Council in 2009. As we've seen, the American regulatory process has proven inadequate to prevent a significant disaster. And our regulatory process is weaker than the Americans'.

Thank you.

CHART #1: Comparison of offshore drilling regulatory requirements related to environmental assessment in Canada, U.S. Greenland and Norway

	CANADA	UNITED STATES	GREENLAND	NORWAY
Opening of new area for petroleum activities	**UNREGULATED** No documented environmental assessment or analysis.	**REGULATED** Environmental Impact Statement (EIS) conducted by the Minerals Management Service (MMS) for: - draft 5 year program - lease sale	**REGULATED** Strategic environmental impact assessment developed under Greenland Home Rule's Bureau of Minerals and Petroleum(BMP).	**REGULATED** Preliminary Environmental Impact Assessment & an extensive Regional Environmental Impact Assessment developed by the Ministry of Petroleum and Energy - May lead to integrated management plan (ie. Barents and Norwegian Sea)
Exploration	**REGULATED** No environmental assessment prior to granting of exploration licence. To explore the National Energy Board must assess under the *Canadian Environmental Assessment Act* (*CEAA*) and Inuvialuit Environmental Impact Screening Committee under the *Inuvialuit Final Agreement*/Nunavut Impact Review Board under the *Nunavut Land Claims Agreement*.	**REGULATED** Analysis and review of operator's exploration plan and environmental assessment pursuant to *National Environmental Policy Act* for individual project development	**REGULATED** Environmental impact assessment conducted by the license holder for project specific activities authorized by the BMP pursuant to the *Mineral Resources Act*.	**REGULATED** Project-specific environmental impact assessment conducted pursuant to the *Norwegian Petroleum Act* carried out and funded by operators for specific project developed authorized by the Ministry of Oil and Energy.

Map #1: Offshore Oil & Gas Development in the Beaufort Sea



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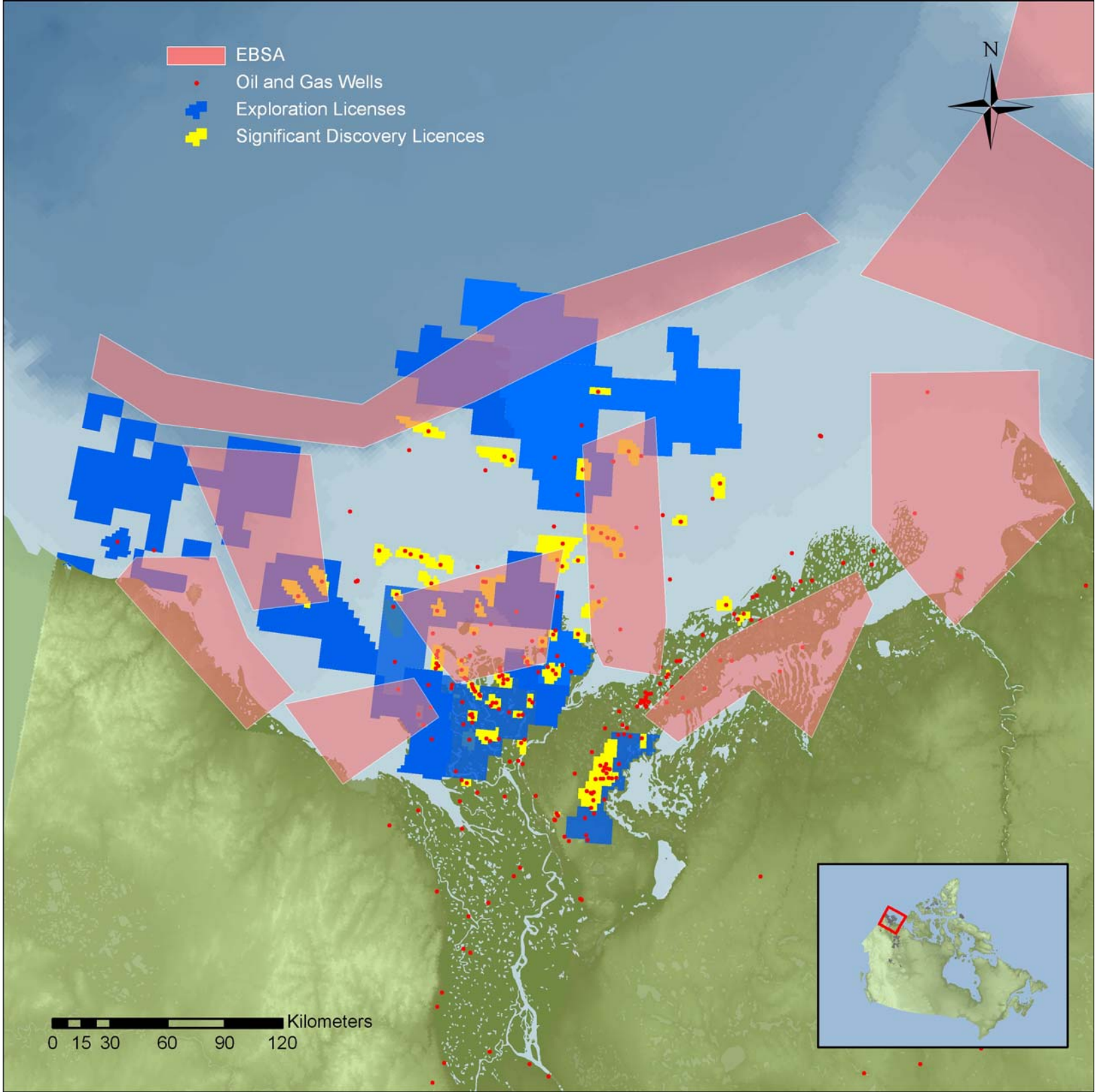
Companies with Oil & Gas Leases in the Beaufort include:

Shell (2005) BP (2008) Imperial (2007)

Beaufort Sea - Mackenzie Basin Call for Bids (2010)

Other Existing Leases


EBSA
Oil and Gas Wells
Exploration Licenses
Significant Discovery Licences
N
Kilometers
0 15 30 60 90 120