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Canada could be on the hook for millions from a UN tax, but who will pay? School of Public Policy report.

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Calgary – Canada's rich reserves of offshore oil and gas are a blessing for a nation dependent on natural resource revenue. However, thanks to past political compromises, some of those reserves come with obligatory payments to an international organization, the United Nations Convention on the Law of the Sea (UNCLOS) - the legal framework for the governance of the world's oceans.

UNCLOS defines the oceans out to 200 nautical miles from land as the exclusive economic zones of the coastal states. Beyond that, on the high seas, national rights are more restricted. Resources located on the seabed of the continental shelf of a state outside an EEZ are governed by article 82 of UNCLO which provides that countries may explore the area and exploit what they find, but after five years of production, they must turn over the equivalent of **one per cent** of the value or volume of on-site production. This rate maxes out at **seven per cent** by the 12th year and it remains at that percentage for the rest of the producing life at the site. Canada has a number of offshore licenses in the area of the continental shelf to which these payments will apply.

A report released today by The School of Public Policy and author Wylie Spicer examines the legal basis for the claims made by UNCLOS, the role of Canada in its development and how it has come to be that there is no contemplation of this requirement in the current framework of Canadian law. The report also offers possible solutions to the Article 82 dilemma - shedding light on a long-neglected problem staring Canada in the face.

According to Spicer "Canada has licensed a number of companies to seek fresh sources of oil and gas far out to sea and may end up becoming the first country required to make the stipulated payments."

We are not ready. Between them, federal and provincial governments have crafted well-developed royalty regimes for the domestic energy sector, but no formal provision has been made for the contributions imposed by UNCLOS. The annual cost to Canada of this obligation will be in the millions of dollars. At present, Canada has no framework in place to source these funds. There is a well-developed royalty regime in the offshore area, but it does not contemplate this substantial requirement No one —neither governments nor producers— knows who will come up with the money.

The paper can be downloaded at http://www.policyschool.ucalgary.ca/?q=research

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Media Contact:

Dana Fenech
403.210.6508
dana.fenech@ucalgary.ca