

# The reformed SSA trader: A new-found dog

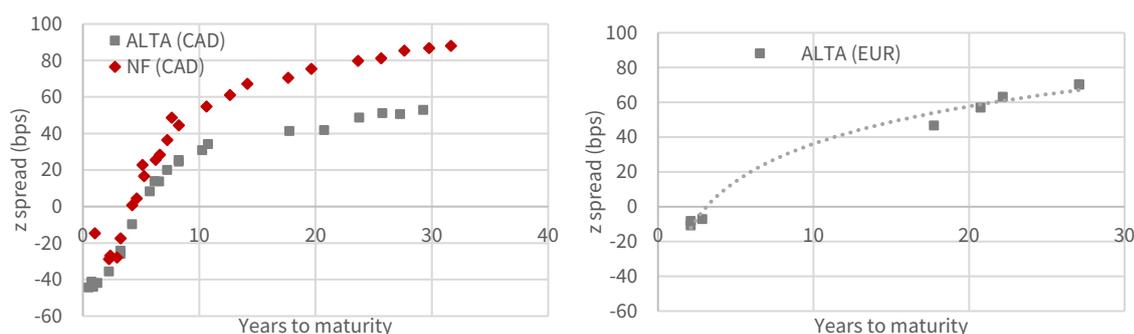
Ulf Erlandsson<sup>(\*)</sup>

Canadian province Newfoundland and Labrador (Ticker: NF) is on a path to double its oil and gas production by 2030, with several large-scale sites currently being developed, including the 30Mtpa CO<sub>2</sub>e [Bay du Nord](#) field. Canada's National Observer outlines the strategy in "[A map of Newfoundland and Labrador's tsunami of offshore oil plans](#)" and UpStream details the lengths to which explorers are willing to go to extract more NF hydrocarbons; "[ExxonMobil eyes new record with ultra-deepwater Canadian Wildcat campaign](#)." The province is also the focus of some European majors' recently increased appetite for drilling; see "[BP has 5 billion barrel Canadian prospect firmly in sights for 2023](#)."

This provides a backdrop to the news that NF has announced it is preparing to sell bonds in the European Sovereign, Supranational and Agency Debt (SSA) sector, following in the footsteps of the carbon intensive Province of Alberta (ALTA), which has previously issued EUR4.7bn there:<sup>1</sup>

*"By establishing the European borrowing program and listing with London Stock Exchange, Newfoundland and Labrador has the option to issue bonds in the European capital market, in addition to its existing domestic Canadian market, to meet its borrowing requirements. Diversifying the province's investor base and broadening the reach to international markets provides an opportunity to continue to lower borrowing costs."*<sup>2</sup>

Figure 1. Canadian province carbon expansion bond curve relative value (ALTA, rated A+/AA2 and NF, rated A/A1): in CAD (left), in EUR (right). Source: AFII, Bloomberg. Pricing as of 6 Mar 2023.



<sup>1</sup> Earlier AFII research has highlighted Canadian province issuers raising cheap money in Euro-markets for financing extremely generous oil, gas and tar sand expansion programs, e.g. "[The ECB and Alberta's oil production holiday](#)", AFII, 26 Oct 2020; "[The Reformed SSA Trader: New Year's Exclusions](#)", AFII, 6 Jan 2021, and follow-on notes.

<sup>2</sup> "[Newfoundland and Labrador Launches European Borrowing Program at London Stock Exchange](#)", web announcement, 6 Mar 2023. The launch including commentary on the ESG proficiency of the issuer (by the issuer) was also covered in an [identically titled article by Bloomberg](#), 6 Mar 2023.

The announcement seems to indicate that the forthcoming bonds will be for general corporate purpose (GCP) borrowing, although the issuer is making a tentative link to the Muskrat Falls<sup>3</sup> hydropower project. For purposes of bond investor analysis, however, the GCP format means that exposure will more likely be on the side of the new oil and gas expansion happening in the province rather than already finished and financed hydropower.<sup>4</sup>

**Potential implications:**

- Forthcoming NF bond issuances may not be suitable for EUR SSA investors seeking to mitigate carbon emissions, climate change and/or reputational risk.<sup>5</sup>
- The European Central Bank may - and in our view should - exclude NF bonds from its [eligible marketable asset list](#) to avoid another fossil-funding collateralization as has been the case with the Province of Alberta EUR bonds.

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<sup>3</sup> It is worth noting that this project has been a clear failure both financially and reputationally in terms of building any credibility for renewable power among the Canadian public, see “[After 10 years, Muskrat Falls has left 'deep wounds' in Newfoundland and Labrador](#)”, The Canadian Press, 17 Dec 2022.

<sup>4</sup> Indeed, LSE’s [announcement](#) on the issuer more clearly states how NF is positioning for further hydrocarbon extraction: “The offshore petroleum industry is positioned to meet the global demand for lower carbon oil.”

<sup>5</sup> See “[Danish pension group criticised for fossil fuel exposure](#)”, FTfm, 7 Mar 2021.

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