



Government announces new round of licensing for oil and gas exploration under new licensing terms

“New regime is in greatest public good” – Minister Ryan

Dublin, 1 August 2007

Minister Eamon Ryan today announced that he would be launching a new licensing round for oil and gas exploration in the ‘Porcupine Basin’ in the early autumn. Details will be published in the EU Official Journal in September.

Companies wishing to explore this area will also be subject to the new licensing terms.

The new licensing terms include a profit resource rent tax. This new tax will be in addition to the 25% corporate tax rate currently employed. It will operate on a graded basis of profitability as follows:

- an additional 15% tax in respect of fields where the profit ratio* exceeds 4.5
- an additional 10% where the profit ratio is between 3.0 and 4.5
- an additional 5% where the profit ratio is between 1.5 and 3.0
- no change where the profit ratio is less than 1.5

On our most profitable fields, therefore, the return to the State will increase from 25% to 40%.

The Government has taken this decision in light of a detailed review of licensing terms carried out by the Department of Communications, Energy and Natural Resources and the report by economic consultants Indecon in the area.

Outlining the details of the changes Minister Ryan said, “The basis for this decision was to ensure a greater return to the State from our own natural resources, while maintaining the incentive for companies to explore off our shores. I believe these changes achieve this balance.

I wish to pay tribute to my predecessor Minister Noel Dempsey for beginning this review process, to thank the officials within my Department for directing the research and Indecon for their work. This is clearly a case of collective concerted action on the basis of expert advice, ultimately agreed across Government. It is best practice in policy-making.”

The previous terms were introduced in 1992 with the aim of encouraging petroleum exploration in Ireland. However, this did not eventualise with only 23 exploration wells drilled in Ireland since that time.

Notwithstanding this fact, Minister Ryan said that he is optimistic that greater exploration investment will take place under these new terms. He explained, “The difference now is in prospectivity, price and profitability.

The data available to us now and seismic technology necessary for prospecting have vastly improved in the intervening 15 years. Energy prices continue to rise. Both of these factors are leading to greater profits in the industry. Fewer prospective areas are open for exploration internationally, making Ireland’s unexplored basins more attractive. The Atlantic area is seriously under-explored. Departmental analysis of this area estimated risked reserves in the order of 10 billion barrels** in the Atlantic area alone.”



The Minister also announced that he will be making changes to the non-fiscal licensing terms as well. These include:

- reducing the overall length of certain licences
- requiring licensees to surrender acreage earlier
- increasing all fees in line with the Consumer Price Index and
- reducing the confidentiality period relating to data acquired by licensees and furnished to the Department.

All changes will apply to exploration licences awarded after 1 January 2007, effective immediately.

Minister Ryan believes, "These changes in the non-fiscal regime will encourage efficient and timely exploration.

All changes, both fiscal and non-fiscal, alter the way Ireland deals with oil and gas exploration companies. They bring us into line with other comparable countries. Successful exploration will contribute greatly to securing Ireland's energy supply into the future.

Ireland's oil and gas is a resource of the people. The Government acts as caretakers/owners of these resources on their behalf. It has a duty to ensure appropriate return and to ensure that they are adequately and properly explored.

Overall, I feel these changes represent a licensing regime that is in the greatest public good".

ENDS

Note for Editors

* Profit ratio is defined as rate of profits less 25% corporate tax divided by the accumulated level of capital investment.

** Source: DCMNR report 2006, p 84 in Indecon review

Ireland's new fiscal regime is a model of tax-take based on two separate taxes and is a common model used in many other countries in the petroleum production sector. It is similar to that used by the UK, Denmark, Norway and in German Länder.

Detail on the non-fiscal changes

Duration of Licences

- The duration of deepwater licences will be reduced from 12 years to 9 years and the minimum period for a frontier licence will be reduced to 12 years.
- Terms will explicitly state the Minister's power to vary both the duration of individual phases of a licence as well as the overall duration of a licence.

Relinquishment Conditions

- The introduction of an automatic relinquishment of 50% of the area covered by a licence at the end of the first phase of all exploration licences and of a further 50% at the end of the second phase of deepwater and frontier licences, regardless of drilling commitments.



Fees

- Retain the current level of rental and application fees, subject to annual increases in line with CPI.

Confidentiality period for Well Data

- The confidentiality period for well data will be reduced from 5 to 4 years.

Drilling Commitments & Work Programmes

- Work programmes will be required to set out clearly the timing of the works proposed.
- There will be no change in drilling obligations in the case of standard and frontier exploration licences. In the case of a deepwater licence the first well to be drilled in the first 3 years of the licence (4 years at present) and a second well must be commenced by the end of the 6th year (8 years at present).

Moving to Development Phase

- The time allowed for the submission of a plan of development will be reduced from 2 years to 1 year from the date a petroleum lease has been signed.
- It will be provided that a lease undertaking may follow on from either an exploration licence or a licensing option and that the information required from the applicant will be the same as that required from a company that is applying for an exploration licence.
- There will be clarification that award of a reserved area licence is not automatic; that the Minister may impose conditions; and that the area concerned must be contiguous with the existing lease area.

Categories of Authorisation

all the existing categories of authorisation should be retained (no change).