

Irish Offshore Operators' Association (IOOA)

Submission in Response to the Green Paper "Towards a Sustainable Energy Future for Ireland"

IOOA welcomes the publication of the above Green Paper, and the invitation from Minister Dempsey to comment thereon.

IOOA also welcomes the statement (Page 11) "In the domestic context, the Government's commitment to offshore exploration is critical".

Energy sustainability, and security, are the focus of this Paper, and indeed a wide range of energy sources, e.g., imports, storage, renewables, diversity of energy sources, and energy saving all have a part to play. However, given Ireland's supply position, both geographical and otherwise, there is no doubt that hydrocarbons, and in particular gas, will be an essential part of our energy mix for decades to come.

Thus, we might have expected that the development of indigenous petroleum resources would have been a central theme of the Green Paper. However, this is not the case, and IOOA would urge that indigenous oil and gas should receive appropriate consideration within the structure of overall energy policy.

Granted, the objective (Page 61) is "Encouraging Investments in Hydrocarbon Resources by creating an Attractive Environment for Exploration".

However, the subsequent discussion, while valid in itself, does not, in our view, address the central issue.

We will return to this question later in this submission.

2.

Firstly, we offer the following observations on the “Summary Policy Targets” identified in the White Paper:

“Continued promotion of Ireland as a location for oil and gas exploration”

IOOA recognises and supports the initiatives taken by the PAD in this regard. Competition for the exploration dollar is fierce, the Irish offshore remains under-explored, and it is essential that Ireland maintains and indeed intensifies the proactive approach now being pursued by the PAD. However, unless supported by policy approaches as suggested below, these initiatives can be only partially successful.

“Maximising the value of any oil and gas finds for the Irish people”

Noting that the principal “value” would relate to revenue from production, and that this is dealt with under the issue of fiscal terms, we presume that this refers to the “associated socio-economic benefits” mentioned in Section 2.1.32. We would welcome further elaboration and clarification of steps to be taken in this regard. We also ask that IOOA’s policy of affording full and fair opportunity to Irish suppliers of goods and services be recognised, also our record of interaction with State agencies in the implementation of this policy. We welcome the recent decision by the CER to alter the rules for extension of the gas grid to groups of towns in the North-West, and the proposals to provide gas supplies to Sligo and Donegal, and suggest that these should be given more prominence.

“Revise and consolidate the regulatory procedures and institutional arrangements for bringing oil and gas ashore”

IOOA greatly welcomes this target. Significant problems have arisen because of lack of clarity and lacunae in responsibility in this area. IOOA also supports the concept of separating promotion from regulatory functions. However, this should be accompanied by clear definition of responsibility, and by the provision of appropriate expertise and resources to discharge these functions.

3.

“Government should establish formal risk framework for major projects”

IOOA is unclear as to why this provision should be specifically mentioned in relation to E&P. Such an analysis would appear to be appropriate for all major projects, energy-related or otherwise.

Completion of review of licensing terms (fiscal and non-fiscal) during 2006

Reading this in conjunction with the content of Section 2.1.36, it might be inferred that a view had already been reached that the current fiscal terms are unduly generous and should be made more rigorous. Should this be the case, IOOA would disagree, and sets out its position below.

The Green Paper also invites responses to a number of questions, among which (Section 3.2.6) is:

“What measures could be taken to encourage the exploration and production of indigenous energy resources?”

IOOA fully supports the initiatives of the PAD in promoting Ireland as an attractive area for exploration. However, such measures can only fully succeed if the number of wells drilled is substantially increased. Therein lies the crux.

Ireland’s current fiscal regime (25% corporation tax), taken in isolation, might be described as “production friendly” in comparison with other regimes in NWE. The problem is that it is not “exploration friendly”. Poor drilling results, combined with the loss of full costs in the event of a dry well, have created an environment of high exploration risk. In consequence, exploration rounds have not attracted much support and the rate of exploration drilling has been very low and spasmodic. This is a vicious circle, as the stop/go situation inhibits the growth of an indigenous service sector. Thus, costs are high, which in turn further discourages exploration. The position is further exacerbated by the perception that the Irish regulatory and planning system inhibits the progress of large development projects.

4.

In contrast, Norway, with a State take of 78% on production, is relatively “production unfriendly”. However, the Norwegian government carries 78% of the cost of unsuccessful exploration, and the geological risk is historically low. Consequently, the Norwegian offshore is considered “exploration friendly” and thus enjoys a rate of applications for licences ten times higher than that of Ireland. This results in a high level of commercial discoveries, which gives further impetus to exploration. The large number of production projects has resulted in a highly developed service and support sector. Familiarity with production projects has also produced a regulatory and planning process which, while rigorous, is seen as transparent and fair. This in turn leads to a high level of public acceptance of the industry.

Thus, the challenge facing Ireland, in “creating an attractive environment for exploration”, is to make Ireland more “exploration friendly”, while remaining “production friendly” in the context of fiscal terms, and addressing those factors which are seen as inimical to production projects.

IOOA suggests the following steps:

1. Continue and intensify the promotional work of the PAD. These have undoubtedly re-awakened some degree of consciousness of the Irish offshore, and should be further supported. To enable assessment of the effectiveness of this work, specific and quantifiable targets should be set, e.g., a specified increase in the number of licence applications.
2. Design and implement a planning and regulatory system that is straightforward, expeditious, transparent, and fair.
3. Maintain a fiscal regime that makes it clear that the Government is serious about creating “an attractive environment for exploration”. In the context of the current review of licensing terms, IOOA’s view is that any element of retrospection, or the reintroduction of royalties which have virtually been abandoned in NWE, would have very serious and damaging consequences for Irish exploration and production.

5.

4. The high oil prices of recent months have declined considerably, and significant worsening of the current fiscal terms would, in our view, send a very damaging signal to the industry as whole. Ireland has been, and remains, a high-risk, high-cost area for exploration, and the risk/reward balance should continue to recognise this. Measures which would damage the economics of high-risk or marginal projects should be avoided, and the terms should be flexible enough to recognise the significant geological, environmental and operating differences between areas such as the West Coast and the Celtic Sea. In this context, indeed, cost/revenue scenarios can be visualised in which the current tax rates might be too high to sustain production.
5. Consider measures which would reduce the exploration risk, and which would thus attract further exploration. IOOA is, in principle, and for reasons outlined above, opposed to measures which would worsen the fiscal terms for production. Under these terms, licensees bear 100% of the very high exploration risk, against the possibility of production under the current fiscal terms. However, should the State decide to worsen these fiscal terms, the State should also bear part of the exploration risk, for instance by refunding part of the costs of unsuccessful exploration, as is in case in Norway.
6. Plan for and promote regular and well-signalled licensing rounds, particularly in frontier areas. This would greatly facilitate the industries' ability to allocate resources and to prepare licence applications
7. Consider and develop measures designed to attract larger numbers of smaller companies. As evidenced recently, these companies have an important role in developing and marketing exploration prospects. Measures could include more promotion of licensing options, the early release and accessibility of data (as in the Gulf of Mexico), and relaxation of the PIP contributions.

6.

8. Implement measures to increase public acceptance of the industry, such as more transparency in the award of licences, with the emphasis on the cost of work programmes. In particular, the PAD should take appropriate steps to counter the common perception that licences are being “given away”. Proactive measures should be taken to inform public representatives, the media and the public of the high cost of work programmes, the strict conditions governing their execution, and the serious financial consequences of unsuccessful exploration.

IOOA hopes that, in the forthcoming White Paper, greater emphasis will be given to the development of indigenous oil and gas resources, that measures as suggested above will be adopted, that there will be clearer definition of targets and greater detail as to how these targets are to be achieved, and, crucially, that the singular difficulties and risks facing the industry offshore Ireland will continue to be recognised.

IOOA would welcome then opportunity to cooperate with the Minister and his officials in addressing these issues.