



BRIEFING PAPER ON IRELAND'S OFFSHORE OIL AND GAS POTENTIAL

1st August 2012

1. Ireland's Offshore Oil and Gas Potential

IOOA welcomes the recent announcement by Providence Resources about the Barryroe oil discovery and looks forward to Ireland's first commercial oil development. More exploration wells must be drilled to confirm the extent of Ireland's resource base, and hopefully the success of Barryroe will stimulate this necessary intensification of exploration.

The Department of Communications, Energy and Natural Resources (DCENR) report, "*Cost Effective Field Development Study for Atlantic Margin Basins*" indicates that a major oil field off the West coast, would, over its lifetime, pay €16 billion in taxes. Less substantial discoveries would pay commensurate amounts of tax, still in the billions.

Such discoveries would improve the markets' view of Ireland's economic prospects, leading to a reduction in the cost of borrowing, while tax revenues would flow as projects reached production. Additional benefits would include significant job creation, the establishment of spin-off industries as has resulted from the Kinsale Head development, and a reduction in our reliance on imported fuels, which would increase competitiveness and improve security of supply.

2. Current Challenges

The DCENR estimates "potential, yet to find" reserves of up to 10 billion barrels of oil equivalent in the Irish offshore. There is, however, a crucial difference between "**potential**" and "**proven**".

If we are to move from "**potential**" to "**proven**", the level of exploration activity needs to be significantly increased. Unless the number of exploration wells can be increased, Ireland's offshore oil and gas potential will not be realised. Exploration activity is currently extremely low.

- Only about 6% of the Irish offshore area is under license.
- Only 5% of the DCENR estimate of "potential, yet-to-find" of 10 billion barrels of oil equivalent has been proven so far.
- Between 1975 and 2011 in the Irish offshore only one significant commercial discovery was made (Corrib) with two relatively minor finds (Seven Heads and Ballycotton) also developed. In the UK, **in 2010 alone**, 8 new projects came on stream, with a further 13 approved for development.
- Exploratory drilling is running at only one or two wells per year- a single deep-water well off the west coast now costs in the region of €70 million.

There are a numbers of reasons for this low level of exploration activity:

- The poor success rate of exploratory drilling to date.
- The harsh operating conditions, and the absence of onshore and offshore infrastructure, leading to high capital and operating costs.
- The delays in bringing the Corrib gas field into production have also negatively influenced potential investors.
- The international oil and gas industry regards Ireland as a high risk/ poor return exploration location and activity is now at historically low levels. The recent licensing round, which resulted in the offer of 13 licencing options, was an improvement on previous rounds, but falls far short of the level of activity in other countries. For instance, a Licensing round in 2010 in the UK attracted 350 applications, with 144 licences being awarded.

The key challenge is to increase the level of exploration activity and, in so doing, realise the potential of our oil and gas resources.



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3. Realising the Potential

To increase exploration activity, the following measures should be implemented:

- a) Put in place a regulatory and administrative regime which facilitates a predictable field development process

The primary requirement is for a transparent, robust and legally binding administrative and regulatory regime for field development, so that all stakeholders have a clear understanding of the issues involved and how they are to be addressed. This should include consultative mechanisms, defined time-lines for permitting, and unambiguous definition of the technical standards to be applied to the various aspects of field development.

In the case of a major discovery, with licensing and permitting across many administrative lines, a mechanism should be established to coordinate and optimise the inputs of the various State agencies. Such a mechanism was put into effect during the successful and uncontroversial development of the Kinsale Head Gas Field in the 1970's. Most importantly, if the industry is to be persuaded to drill offshore Ireland, thereby putting large sums of money at serious risk, there must be the assurance of a reasonably predictable field development process.

This approach will build on the lessons learned from the Corrib project, for the benefit of government, community and industry stakeholders.

Responsibility for an effective field development regime rests with the Government, in consultation with all stakeholders.

- b) Promote offshore Ireland to the international oil and gas industry

International competition for exploration dollars is fierce, and Governments go to considerable lengths to attract the industry. For instance, the Norwegian Government reimburses some 78% of the cost of an unsuccessful well. At the other end of the world, New Zealand has announced a significant strengthening of promotion of its offshore resources. In between, there are numbers of "hot-spots" such as West Africa, North Africa and offshore Brazil, where the chances of success are good and the overall ambience is welcoming.

While the DCENR holds the industry rigorously accountable in its role as regulator, it may not have the resources to effectively focus on promotion, compared with other nations.

The DCENR might consider separation of the functions of regulation and promotion, and review resourcing levels to support the industry potential as a major contributor to the Irish economy.

The DCENR should be appropriately resourced to enable a significant additional focus on promotion and the disparate functions of regulation and promotion should be separated.

- c) Assure potential applicants for licenses that their presence and investments in offshore Ireland will be welcome.

Investment in offshore exploration and development should be as welcome as any other foreign direct investment. It requires no financial support or State aid, and once established, the jobs and the tax revenues remain in the State for the long term.



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Irish oil and gas fiscal terms were reviewed four years ago by international consultants, Indecon, in a study commissioned by the Minister for Communications, Energy and Natural Resources. Indecon concluded that the tax level of 25% was broadly appropriate to the level of risk in offshore Ireland. They recommended that in the future 35% be levied on the most profitable fields. The Minister increased this tax level to 40%.

There has been a considerable amount of comment on the Irish fiscal terms, much of it poorly informed, particularly as regards the absence of royalties. The UK abolished royalties on new production in 1982, followed by Norway in 1986. Ireland followed suit in 1987 to remain in some way competitive, followed closely by the Netherlands and Denmark. Royalties have effectively vanished offshore North-west Europe for the reason that, as a levy on production rather than profits, royalties can seriously damage the economics of high-risk, high-cost projects.

Proactive steps should be taken by relevant government departments and state agencies to increase understanding of the industry and to assure potential applicants for licences that their presence and their investments are welcome.

4. The Future

It is in the context of the foregoing that we should view the announcement by Providence Resources of their quantification of the oil resources at the Barryroe discovery.

While its recoverable reserves remain to be quantified, Barryroe seems likely to be a major commercial oil discovery, changing perceptions of the potential of the Celtic Sea and indeed of the Irish Offshore in general. Cork, in particular, is well placed to benefit. We should remember that Cork Harbour has been servicing exploration and production operations since the early 1970's and has an excellent reputation in the industry for service delivery. Companies which cut their teeth on the Kinsale Head Development have grown into significant international operations, such as Mainport (supply and service vessels), and PM Ltd. (engineering and project management). Cork Harbour is also home to Whitegate Refinery, and is accustomed to handling large oil tankers.

The potential for economic development, for employment and for tax revenue is great, but it would be a mistake to build our hopes too high on this one discovery. We have been here before. When the Kinsale Head Field was discovered in the early 1970's, it was widely trumpeted as the beginning of a new North Sea, and we have seen the lengthy series of disappointments and lost investments since then.

What we need to do is to build carefully on this discovery, to intensify our promotional effort, to make it clear to potential investors that they are welcome and that there is in Ireland a stable and effective regulatory and fiscal regime. That is the way to attract and to build a successful industry, which has so much potential to contribute to our national recovery.

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