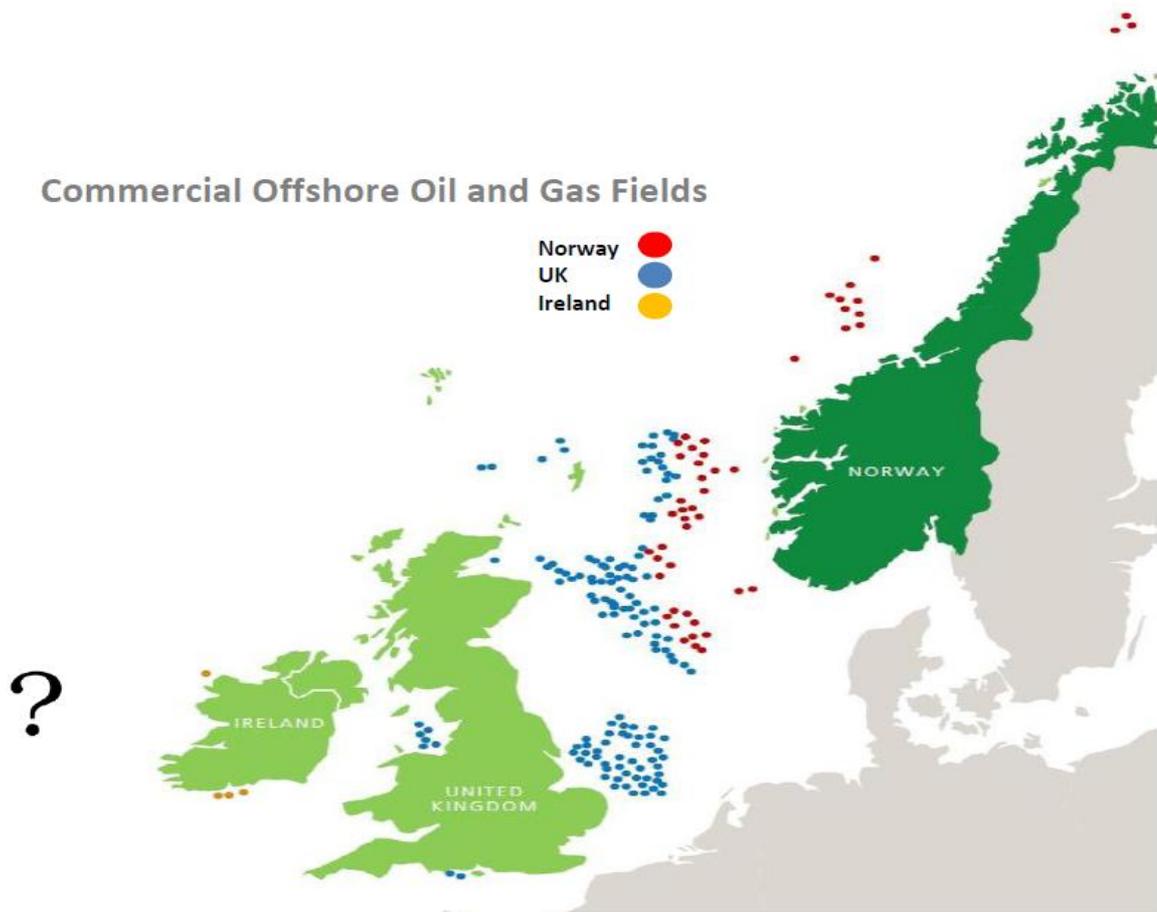




## Ireland's Offshore Potential



Submission to the Marine Institute in response to the  
consultation document “Towards an Integrated Marine  
Plan for Ireland”

31<sup>st</sup> March 2012

**The Marine Institute, in its consultation document “Towards an Integrated Marine Plan for Ireland”, invited submissions in relation “Ireland’s Ocean Wealth.”**

**The following is the response of the Irish Offshore Operators’ Association to the above invitation.**

## **1.0 Policy Background**

The Government, in its White Paper on Energy Policy, 2007 to 2020, affirmed a strategic goal of

***“creating a stable and attractive environment for hydrocarbon exploration and production”.***

The International Energy Agency (IEA), in their 2007 Review of Irish Energy Policy, had recommended that Ireland should

***“develop a framework that encourages exploration and the introduction of new companies into the Irish petroleum industry by implementing best practice from abroad,***

and should

***“ in particular, ensure that the fiscal regime for exploration and production adequately reflects the industry’s risks and perception of the Irish petroleum province.***

The IEA also stated that

***“while the current ( i.e. 2007) fiscal regime is creating a favourable environment for developers, great care should be taken not to increase the risk for developers by tightening the rules”.***

In 2007, the Government also received the Indecon Report.

This report is something of a watershed in relation to the offshore industry in Ireland. It was commissioned by Minister Noel Dempsey in 2006 and reported to Minister Eamonn Ryan in 2007. It is the only rigorous comparative examination of the Irish licensing regime to be in the public domain. It modeled a wide range of development scenarios in 15 comparable licensing regimes, both in Europe and farther afield.

2.

The Indecon report concluded as follows:

*“The conclusions of our review confirm the attractiveness of the Irish regime if a commercial discovery is made but places particular weight on the key issue of Ireland’s prospectivity. Taking account of the likelihood of success and the cost structure of oil and gas exploration in Ireland, the attractiveness of Ireland as a location for exploration diminishes compared with the analysis of Ireland’s position post-tax assuming a commercial find. We believe, however, there may be potential to capture a higher share for the Government on more profitable finds but the potential for this should not be overestimated.*

*In the table below we [i.e. Indecon] present a summary of our recommendations.*

#### *Summary of Recommendations*

- 1. For oil and gas exploration finds where the ratio of profits to capital investment is not more than 1.5 then no change to the fiscal terms should apply.*
- 2. For more profitable finds we recommend that for new licences awarded a supplementary corporate profit resource rent tax of between 5-10% should be levied which would mean a combined corporate tax / resource rent tax on the incremental level of profits of up to 35%.*
- 3. We recommend that if in the future significant commercial oil or gas fields are discovered that additional increases in the rate of the resource rent tax should be applied to new licences.*

In the event, the Government went farther than Indecon had recommended, and increased the maximum tax level to 40%, **contrary to the advice of the IEA.**

## **2. History**

The Irish offshore industry effectively commenced in 1973, with the discovery by Marathon of the Kinsale Head Gas Field, which came on stream in 1978. At the time, there was a widespread perception that the major oil and gas discoveries in the North Sea would be replicated offshore Ireland. The Government, accordingly, in 1975, introduced a fiscal and licensing regime based on the then Norwegian model, which persisted until 1987.

During those years, despite the drilling of numerous exploration wells, there was not a single commercial discovery, and interest in the Irish offshore petered out.

In the light of this, the Government reduced the tax on production, initially by abolishing royalties, as had already been done in most north-west European regimes, and later in 1992, by reduced the tax rate to 25%.

### 3.

For a time, the reduced tax rates attracted some additional interest, but the poor discovery rate persisted, and industry interest in the Irish offshore continued to decline.

This decline can be measured in a number of ways.

Of the thirty companies that have operated wells offshore Ireland, only five remain in any way involved, and of that five, only two are active in exploration.

In 1985 our Association had 17 members. Of that 17, only four remain. Our membership now stands at eight (Appendix 1).

Exploration activity, as measured by exploration wells drilled, has descended to historically low levels. Since 2008, with the introduction of the “Indecon terms”, only four exploration wells have been drilled. This is far below the level required to establish the potential of the region.

The reasons for this decline may be summarized as follows:

- A historical lack of drilling success. Between 1975 and 2011, only one significant commercial discovery, Corrib, was made, with two minor finds, Seven Heads and Ballycotton, which were developed as satellites of the Kinsale Head Field. In contrast, in 2010 alone, in the UK sector, eight new fields came on stream, with a further thirteen new projects approved for development  
**In terms of drilling success to date, and notwithstanding the recent announcement regarding the Barryroe discovery, Ireland lags far behind the North Sea, and is seen as a poor bet when it comes to exploration investment**
- The offshore environment, especially in the Atlantic, is extremely challenging, and operating costs are high. For instance, just to mobilise a rig from the North Sea to the West Coast will cost around €6.0 million, before a meter of well is drilled. A single deep-water well off the West Coast can now cost around €70 million.
- Ireland is perceived as an unrewarding and difficult place in which to do business. In evaluating where to commit exploration funds, investors look for a stable licensing regime and a realistic regulatory framework for development projects. The CEO of an Irish exploration company active in Algeria, Italy and Kurdistan recently stated that his Board would not countenance involvement in Ireland, as being “too risky”. The extreme difficulties and delays in bringing a discovery into production in Ireland are well appreciated internationally, this in a country, which depends on, imported oil and gas for over 90% of primary energy.

#### **4. Atlantic Margin Round**

In the context of the foregoing, and the failure of previous policies, we now review the results of the recent Atlantic Margin Licencing Round.

Fifteen applications were received, and on 17<sup>th</sup> October 2011 the Minister announced that he had offered licences to thirteen applicants. At the outset, we acknowledge that this is a significant improvement on previous Rounds. For instance, in 2009 there were only two applicants, both for the same acreage, which resulted in the award of just one licence.

However, the area for which the new Irish licences have been awarded amounts to just six per cent of the area on offer. In addition, none of these licences are exploration licences proper, which would carry with them major work programmes. They are Licensing Options, which may, **or may not**, be converted into exploration licences after two years.

The new companies that have been awarded licences, while most welcome, are relatively small, and with one exception, there is an absence of companies, which could be described internationally as household names. As the Financial Times put it ***“in a blow to the Irish government’s drive to increase offshore exploration, none of the world’s oil majors applied”***.

In contrast, a recent UK Round attracted 350 applications, and resulted in the award of 144 licences, which puts our 13 offers in perspective. Appendix 2 lists the companies that were awarded licences offshore the UK in 2010, which vividly illustrates the point.

This is not an isolated instance. In 2005, in the UK, 152 licences were offered to 99 applicants, including 24 new to the area.

Turning to drilling, in 2009, in the UK sector, there were 23 exploration wells and 42 appraisal wells. In that same year, Ireland had 1 exploration and no appraisal wells.

Norway is averaging about 50 exploration and appraisal wells per year. Norway has 71 producing fields, with a further 64 at various stages of planning and approval, and another 49 discoveries awaiting evaluation.

The above is not to downplay the hard work and commitment of the officials of the Department in promoting the recent Round, or indeed to dismiss the potential that undoubtedly exists. It is merely to illustrate the realities of the situation. Ireland is not regarded by the oil and gas industry as a fat goose waiting to be plucked.

**The fact of the matter is that, as far as the international oil and gas industry is concerned, Ireland continues to have serious reputational problems.**

## **5. Benefits to Ireland**

The offshore industry has already brought significant benefits to Ireland, at both national and local levels, and has the potential for very much more.

### ***Development***

Since 1978, the **Kinsale Head Gas Field**, together with its satellite fields Ballycotton and Seven Heads, has provided energy security, clean fuel, taxation revenues and employment. Bord Gáis Eireann (BGE) was established and the original national gas grid constructed on foot of the Kinsale Head development, as were the Nitrogen Eireann plant at Marino Point, and the ESB gas fired plants at Aghada and Poolbeg. The significant concentration of process industries, such as pharmaceuticals and food, in the Cork Harbour area was facilitated by the availability of Kinsale Head natural gas. The original and subsequent capital expenditures on the field amount to over €1.5 billion in today's money.

Even now, 33 years after initial production, over a hundred direct jobs are supported by the field's operations, with a spend in the local economy of approximately €30 million per annum.

In recent years, Ireland's only gas storage facility has been developed within the Kinsale Field complex, and while relatively small, the Southwest Kinsale storage facility contributes significantly to the security of Ireland's gas supplies, with hundreds of thousands of Irish homes receiving gas from the store during periods of peak winter demand.

Overall, the contribution of this single development to the economic life of the country has been immense.

The **Corrib Gas Field**, from production to end of life, is projected to contribute over €6.0 bn. to Ireland's GDP. From now until completion of construction, it will sustain 1465 fulltime jobs. During production it will sustain 175 full time jobs

Investment by the Corrib Partners in local infrastructure, including roads has topped € 16 m. Community investment initiatives will draw down a further € 13.5 million.

The extension of the National Gas Grid to the north-west, which would have been uneconomic without the support of Corrib gas, has already brought natural gas to twelve towns in North Galway and Mayo, with the possibility of more. A recent report by the Western Development Commission (September 2011), which examined the benefits of extending the gas grid to a further eleven towns in the north-west, estimated that €20.6m could be saved annually in fuel costs between commercial and domestic users, if natural gas were made available in these towns.

## 6.

Involvement with the offshore industry, which imposes demanding standards of service delivery and safety, materially assists the long-term development of local contractors, in terms of increased familiarity with international standards and practices, up-skilling of staff, and the reputational dividend of having successfully worked with a major international company. (See Appendix 3)

The country has benefited massively from both these developments and will continue to do so for the foreseeable future.

### **Exploration**

Even the relatively low level of exploration brings its benefits. Killybegs, in Donegal, was devastated by the decline of the fishing industry. It has now reinvented itself as a successful supply and service base for the offshore industry.

Servicing of the Sedco 711 rig, which carried out maintenance work at the Corrib field between May and October 2011, generated business in Donegal in excess of €3 million. Thirty-one companies and businesses in Donegal shared in this business. Additional aviation traffic included 250 helicopter movements, 200 fixed wing movements and 5,100 passenger movements through Carrickfinn airport, this at a time when regional airports are under severe pressure. The Port of Killybegs received an additional 73 vessel port calls, and clocked up some 23,000 additional man hours. Nearly 2 million litres of marine gas oil was purchased by this port traffic.

All this was despite the fact that, in comparison with recent years, activity in 2011 was below the norm, as the offshore work was focussed on well maintenance as opposed to drilling.

### **Taxation**

A recent DCENR study shows that a “giant” oil field offshore Ireland would over its life time pay some €16 bn. in tax. While there would be some years between the discovery and the start of production before tax revenues would flow, the certainty of such revenue in the future would have a significant effect on perceptions of Ireland’s long-term financial prospects.

While the discovery of such a field offshore Ireland remains problematic, there are over 40 fields in the UK and Norwegian sectors with reserves greater than 500,000 barrels of oil equivalent (boe). Another was announced only three weeks ago, which is now estimated to have as much as 1.5 billion boe recoverable, and which may be one of the biggest ever discovered offshore Norway.

The study quoted above also shows that even relatively small fields offshore Ireland would pay substantial levels of tax, and should we find ourselves in the fortunate position of being an exporter of gas, there would be downward pressure on indigenous gas prices relative to the international market.

## **6. Recommendations**

The foregoing shows that the offshore industry is delivering significant benefits to Ireland, and furthermore, has the potential to bring about a step change in our economic prospects. The relative success of the 2011 Licensing Round, and more particularly, the recent announcement that Irish companies Providence Resources and its partner, Lansdowne Oil and Gas have made a significant oil discovery off the South coast give encouragement for the future. Hopefully, will further exploration will be attracted, leading in turn to more discoveries.

**However, this must be seen in the context of the previous 40 years and of the many disappointments and financial losses, which took place during this period.**

Thus, it continues to be important that obstacles, which might act, as discouraging factors should be avoided and those steps be taken to encourage and support further exploration.

These should include:

### **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 timelines 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. 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.

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

**b) Intensify promotion of offshore Ireland to the international oil and gas industry**

International competition for exploration investment is fierce, and Governments go to considerable lengths to attract the industry. 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, including the acquisition of seismic data which are then provided **free-of-charge** to potential applicants for licences. 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.

The DCENR has engaged constructively with the industry to try to increase the level of exploration. However, their resources are limited when compared with other nations, and are divided between the functions of regulation and promotion.

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

**c) Assure potential applicants for licenses that their presence and investments 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.

*Proactive steps should be taken by public representatives, 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.*

*In particular, applicants for licences need to be assured of the long-term stability of the licencing regime. Already, in the light of the Barryroe discovery, there have been calls for revision of the fiscal terms. Such a revision, following a single discovery, would be most premature, and would be very damaging to the prospects for an increase in exploration activity.*

9.

IOOA welcomes the intention to focus more attention on the development of Ireland's marine resources, through the creation of an Integrated Marine Plan. We support the intention in the plan to review and streamline Marine Governance, Planning and Licensing, as this is essential to regulate the various sectoral interests and activities in the marine area, and to ensure a competitive and efficient policy framework. We note also the intention to use Marine Spatial Planning (MSP) as a tool in developing this plan. We believe that such Marine Spatial Planning should not be overly prescriptive, and should avoid the unnecessary sterilisation of potentially petroliferous areas.

We wish to thank the Marine Institute for the opportunity to contribute to the debate.

IOOA,  
31<sup>st</sup> March 2012

## Appendix I: List of IOOA Members



### **ENI IRELAND BV**

Ebury Bridge House,  
10 Ebury Bridge Road,  
London SW1 W8PZ  
Tel: +44 2073446000  
Web: [www.eni.it](http://www.eni.it)



### **Lansdowne**

26 Upper Pembroke Street  
Dublin 2. Ireland  
Tel: +353 1 637 3934  
Fax: +353 1 662 0365  
Web: tba



### **Providence Resources Plc**

Airfield House  
Airfield Park  
Dublin 4  
Ireland.  
Tel: +353 1 219 4074  
Fax: +353 1 219 4006  
Web: [www.providenceresources.com](http://www.providenceresources.com)



### **Shell E&P Ireland Ltd**

Corrib House  
52 Lower Leeson St.  
Dublin 2. Ireland.  
Tel: +353 1 669 4100  
Fax: +353 1 669 4101  
Web: [www.shell.com](http://www.shell.com)  
A member of the Royal Dutch Shell  
Group of Companies.



### **ExxonMobil International Ltd**

Web: [www.exxonmobil.com](http://www.exxonmobil.com)  
Attn: Global Privacy Office  
Esso Petroleum Company Limited  
Mail Point 5A  
Ermyn Way  
Leatherhead  
Surrey  
UK  
KT22 8UX



### **PSE Kinsale Energy Ltd**

Mahon Industrial Estate  
Blackrock  
Co. Cork  
Ireland.  
Tel: +353 21 435 7301  
Fax: +353 21 435 7696  
Web: [www.kinsale-energy.ie](http://www.kinsale-energy.ie)



### **Serica Energy**

87-89 Baker Street  
London W1U 6RJ  
Web: [www.serica-energy.com](http://www.serica-energy.com)



### **Statoil**

Statoil House  
6, George's Dock  
Dublin 1. Ireland.  
Tel: +353 1 636 8100  
Fax: +353 1 818 0300  
Web: [www.statoil.ie](http://www.statoil.ie)

## **Appendix 2: Companies Awarded Licences in UK 26<sup>th</sup> Round, 2010**

( )= No of licences

Antrim	Nautical
Apache (2)	Nexen (9)
AWE Offshore (2)	Nippon
Bayerngas (3)	Norwegian Energy
BP (5)	OMV (2)
Carrizo (2)	PA Resources
ConocoPhillips (5)	Petro-Canada
Dana (4)	Premier (2)
Deliverit (2)	Reach
Echo Exploration (3)	Sendero (5)
Elixir	Serica
Encore (2)	Shell (4)
ExxonMobil	Silverstone (2)
Fairfield	Statoil (3)
Faroe (4)	Sterling
First Oil (4)	Talisman (5)
GDF Suez (5)	TAQA (4)
GTO (3)	Total (6)
Hess (2)	Trap Oil
Holywell	Valiant (5)
Hurricane	Venture (4)
Idemitsu	Veritas (3)
Ithaca	Volantis (4)
LundinHeather (4)	Xcite (2)
Maersk (4)	Zeus (6)
Mahona	
MPX (2)	

**Total No. of Licences = 144**

## **Appendix 3: Examples of companies benefitting from involvement with the international oil and gas industry**

### **PM Group**

PM Group was founded in Ireland in 1973 and the company won its first major energy project with Marathon Petroleum in 1976 to provide project and construction management services on the Kinsale Head Gasfield Development, located 50 kilometers off the south coast of Ireland.

The Kinsale Head project is acknowledged by the founders of the company to have been a significant launching pad, and the experience gained was important in supporting the development of the Group.

Today PM Group employs 1,600 people world-wide, delivering complex capital projects to clients in over 30 countries in the biopharmaceuticals, advanced manufacturing, medical technologies, food and nutritionals, energy, research and development, transportation, healthcare, education, environmental and commercial sectors.

### **Roadbridge**

Roadbridge, an Irish family-owned construction business employing around 2000 people in Ireland, was founded in 1967 and was one of the major local contractors on the Corrib project, and also constructed the Bord Gáis Mayo-Galway gas pipeline.

The Company is emphatic about the benefits of having worked with an oil major on Corrib in terms of the processes learned, up-skilling of staff and the approach to safety. The experience gained from being a successful contractor to a major international oil company has "opened the door" for Roadbridge and has enabled them to land a contract with Total in Scotland and a major contract in Australia, also in the energy sector.

Roadbridge has been able to internationalise itself and is confident of prospering and maintaining many jobs.

### **Sinbad Marine Services**

Sinbad Marine Services was established in Killybegs in 1978 to service the international fishing fleets working off the west coast of Ireland. Given the company's agency and logistics experience, the company started servicing seismic/survey vessels and in 1999 established "Killybegs Supply Base" which is now the primary supply base on the west coast servicing all the E&P companies operating in the area such as Shell, Statoil, Serica, Eni and Lundin as well as pipe lay, subsea and survey operations. Many of Sinbad's subcontractors e.g. stevedoring, crane hire, waste, transport companies, etc. have also successfully expanded their scope to include supply to the offshore industry. Due to experience gained in the offshore industry, particular in terms of HSEQ, Sinbad is now in a position to compete for similar work on the international stage.

## **Mainport Holdings**

Mainport Holdings was founded by Finbar Ronayne in 1954 as a ship agency company in Cork. The company became involved with the offshore industry in 1974, providing base support management services to license-holders exploring in the Celtic Sea. In 1979 Mainport was awarded a contract by Marathon to provide supply-boat and standby-boat services to the Kinsale Head Platforms, and in that year bought its first vessel. Today, Mainport is an international integrated marine service company, with a fleet of 24 vessels, having operations in the Ireland, the UK, Norway, South Africa, West Africa, Brazil and the Caspian Sea. New offices have recently been opened in Angola and Singapore. In recent years, the company has specialized in seismic survey support operations and is currently adding to its fleet three new-build seismic support vessels, which will operate worldwide.