

THE OPENING OF THE 1994 NEW ZEALAND PETROLEUM CONFERENCE

Hon Doug Kidd
Minister of Energy

Welcome to the 1994 New Zealand Petroleum Conference. It is with great pleasure that I open this conference which is being hosted by the Ministry of Commerce and the Petroleum Exploration Association of New Zealand (PEANZ).

I am especially pleased to see the high number of overseas representatives here. This reflects the international nature of the New Zealand petroleum exploration industry. It also reflects the continuing interest explorers have shown in New Zealand over the years, the pleasing results obtained and the promise of further such results to come.

Today, I want to particularly consider:

- the importance of petroleum exploration and production to the New Zealand economy,
- the crown's ownership of the petroleum resource
- the minerals programme for petroleum
- the upcoming petroleum exploration blocks offers
- the conference theme: The Post Maui Challenge — Investment and Development Opportunities

By most calculations, New Zealand has in recent times produced some \$1500 million dollars of petroleum each year. The significance of this production to the economy is well appreciated by government. The aspect of security of supply is similarly acknowledged.

The petroleum exploration industry plays a key role in the New Zealand economy. Oil and gas constitutes nearly half of New Zealand's total primary energy supply. We are fortunate in having significant indigenous petroleum supplies available. However New Zealand is still dependent on petroleum imports for around half of our liquid fuels.

The government knows that a strong exploration industry is vital in locating and bringing into production new oil and gas supplies. We are committed to promoting policies and having a legislative framework in place that is supportive of the industry and is conducive to investment. We want to encourage exploration. We want explorers in New Zealand. We want to see new discoveries and we want to see the benefits of these reflected in certainty of supply, more jobs, growth and prosperity for our country.

To achieve this we need a regime that is fully competitive with other countries seeking exploration capital and involvement.

One area where we can make improvements is in crown involvement in permits.

Most countries in the world have a significant degree of state involvement in petroleum exploration and development within their borders.

This is particularly so within the South East Asia region. It is within this region which we are competing for scarce capital funding for exploration. Nearly all these countries

have strong government involvement either by means of a national oil company, production sharing or service contracts.

In avoiding state involvement I consider that the new regime will give us a significant advantage in its attractiveness to international explorers. In this new regime we will ensure a return on the crown's minerals, particularly petroleum, solely through a royalty which is charged once the ownership changes. That is at the point of extraction.

Until that point, it is the crown's responsibility to properly and wisely manage its resource. This is a responsibility it carefully exercises on behalf of its citizens; a responsibility which it cannot abrogate.

The draft Minerals Programme for Petroleum sets out the government's policy proposals for the allocation and management of petroleum. It details procedures and provisions for the allocation and management of petroleum prospecting, exploration and mining permits. Importantly, it also details the proposed royalty regime.

The objective of the Minerals Programmes is to provide certainty as to the conditions under which permits to prospect, explore and mine are granted. They also provide for transparency in administering the Crown Minerals Act. This is achieved, not only by outlining the policies, procedures and provisions to be applied, but also by providing for input by Maori, the public and industry in developing the programmes.

The origin of Minerals Programmes is contained in the Crown Minerals Act 1991. In the Act, the Minister of Energy is required to prepare Minerals Programmes for all crown-owned minerals that are likely to be the subject of permit applications.

The programme for petroleum is the first Minerals Programme to be published. Three other programmes are being prepared, for metallic and non-metallic minerals, coal and industrial rocks and building stones.

A call for public submissions on the draft Minerals Programme for petroleum will be made in about May. A period of 40 days is then prescribed in the Crown Minerals Act for submissions to be received. The final minerals programme is expected to be in place in the latter part of this year, most probably around September.

The whole Minerals Programme will be of interest to, and will impact on, the petroleum exploration community. Of particular interest will be the three methods proposed for the allocation of exploration permits. These are:

- Staged Work Programme Bidding
- Cash Bonus Bidding
- Acceptable Frontier Offer

Staged work programme bidding is the method that has been used in the past for the allocation of petroleum licences. It will continue to be used to allocate petroleum permits to the bidder who submits the best exploration programme. This allocation option is likely to be the most commonly used.

Cash bonus bidding is the method that will be used where there is a high level of information about an area, where prospectivity is particularly high and where there is expected to be very keen competition for permits. It allocates permits through a cash auction process.

In offshore areas where it appears there is little or no competitive interest, it is proposed that exploration permits may be allocated as a result of receipt of an acceptable frontier offer. The offer must include commitment to an aggressive work programme which meets defined criteria.

In most cases, mining permits, that is, permits to develop the resource, will be granted subsequent to a permit holder making a discovery under an exploration permit. In such a case, the permit holder has a right to obtain a mining permit subject to the Minister approving a work programme.

The proposed royalty regime consists of two components. One component is a 5 percent ad valorem royalty charged on the net sales revenue obtained under a permit. The second component is a 20 percent accounting profits royalty charged on the profits obtained in the course of a development project. The permit holder will be required to pay the higher of these two components in any one year. I stress that it is an either/or situation. The operator pays one or the other, not both.

I cannot fully determine the length of time needed for proper consultation as prescribed in the Crown Minerals Act. This consultation must occur as an essential part of determining and implementing the minerals programmes. I do however appreciate the sense of urgency conveyed to me by both my officials and petroleum explorers who want access to further exploration acreage. You can be assured that we are proceeding with all reasonable speed to put the Minerals Programme for Petroleum in place.

Whilst I regret the necessary delay in finalising the Minerals Programme for Petroleum, I can assure you that once it is in place, I am committed to providing opportunities for renewed exploration.

Today I am pleased to announce that, as soon as practicable following the implementation of the Minerals Programme for Petroleum, I will release an offer of permit blocks in both onshore and offshore Taranaki. These blocks offers are the initial part of an on-going programme of rolling blocks offers. Details of this programme will be announced later this year, but I can say at this stage that it is proposed to follow the Taranaki offerings with onshore and offshore blocks in the East Coast Basin.

The theme of this year's conference is "The Post Maui Challenge — Investment and Development Opportunities".

The Maui field dominates indigenous petroleum production and has done so since coming on stream in the 1970s. At the beginning of 1993 it accounted for 48 percent of our estimated recoverable oil and condensate reserves and 72 percent of our estimated recoverable natural gas reserves.

The timing and rate of depletion of the Maui reserves will have a major impact on New Zealand's energy markets.

The government's role in this scenario has been to anticipate and respond to the issues which are likely to develop as a result of an increasing energy demand coupled with the depletion of the Maui resource. The government's responses will enable energy markets to operate more efficiently, to encourage petroleum exploration, and to improve energy efficiency.

The energy reforms of the past few years, and those currently under discussion or development, will ensure markets operate more efficiently by allowing suppliers and consumers to respond to price signals. Businesses, investors and consumers are better placed than central governments to respond to changes in supply and demand, and to take risk decisions on investments.

To encourage petroleum exploration the government has amended the tax regime associated with petroleum and has proposed a new royalty regime, which I discussed earlier. The government has also removed controls on the price of gas. As Maui depletes, gas prices will inevitably rise, improving the economics of exploration and development, and encouraging energy efficiency and conservation.

To encourage competition in the gas industry the government is putting in place a light-handed regulatory regime to ensure open access to gas pipelines. This will improve the efficiency and economics of the gas industry and the viability of new, as yet undiscovered, gas fields.

The government is committed to ensuring open access to essential facilities like gas pipelines, and I know the industry is making steady progress towards negotiating solutions to some complex technical issues on open access.

The government is also committed to encouraging energy efficiency to reduce New Zealand's energy requirements. Energy efficiency is cost-effective and could potentially allow us to reduce our required energy demand: thereby avoiding the need for significant new electricity generation capacity and reducing expected carbon dioxide emissions. The energy sector reforms should bring about improved energy efficiency as both electricity and gas retailers use efficiency programmes as a way to attract new customers. As well, the setting up by the government of the Energy Efficiency and Conservation Authority to focus on these issues is a firm commitment to efficiency.

The scene has been set by government for the petroleum industry through government policies and legislation. It has freed up the business climate, putting in place price stability, budget discipline, flexible employment policies, and an enterprise culture. It welcomes both domestic and foreign investment in the petroleum industry. It has reformed the petroleum taxation regime. It is about to promulgate the Minerals Programme for Petroleum and change to a more attractive permit allocation and royalty regime without state involvement.

The industry has in place a framework that is supportive and conducive to investment. It is for explorers to ensure a positive outcome to the "Post Maui Challenge".

Further potential petroleum discoveries and developments are waiting for you. I look forward to your response.

Once again, it is with great pleasure that I welcome you here to Rotorua. I wish those attending the conference a rewarding and enjoyable experience and hope you all benefit from this meeting of the diverse group which constitutes the New Zealand petroleum industry.

Author

DOUG KIDD was educated at Ohau Primary School, Horowhenua College, and Victoria University, from where he graduated LLB in 1964. After being admitted to the bar as barrister and solicitor he joined the Blenheim law firm of Wisheart Macnab and Partners until 1979.

During this time Doug became increasingly involved with the National Party, holding positions on the Marlborough Electorate Executive; as a Dominion Councillor, and as Electorate Chairman for Marlborough from 1972 to 1974.

He first entered Parliament in 1978 as MP for Marlborough. In 1983 he chaired the Parliamentary Select Committee which saw the rewriting of legislation providing for the establishment of the Motonui synthetic fuel plant.

In 1990 he was appointed to Cabinet as Minister of State Owned Enterprises, Fisheries, and as Associate Minister of Finance, in which capacity he also chaired the Cabinet Expenditure Control Committee. In the October 1991 Cabinet reshuffle, Mr Kidd exchanged State-Owned Enterprises and Associate Finance portfolios for the Maori Affairs portfolio, retaining Fisheries.