

The role of the regulator – juggling the expectations of the Crown and Industry

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Introductory comments

Good afternoon ladies and gentlemen.... I know what you're thinking.... First – why did he want the dubious pleasure of being the final speaker after 3 days of speeches? And second – regardless, will he delay us from a well-earned drink to conclude this conference.”

The answer to the first question is rather personal. I'm getting married in 3 days. ..and with impending marriage, this speech may be the final opportunity in my life to have the last word.”

The answer to the second question is “No – like many of you, I have a plane to catch.”

But equally, I want you leaving today with a feeling that 3 days of debate and discussion has been heard by us, and that some action is being taken – unlike the relative inaction of the past 10 years alluded to by Chris Stone earlier today. So I want to take a few minutes to summarise to you what I've heard during this conference, and how Crown Minerals plans to react to it.

But first the question - “What is the role of the regulator in the petroleum industry?” My answer is a simple one. It is the same as the role of any regulator of any industry – to do what we are told. And to do it well.

This of course begs the questions – what have we been told, and by whom? And, perhaps more importantly, what weighting do we give to different messages and how do we put those directions into effect?

The Government's expectations

You'll forgive me if, as a dutiful public servant, I first summarise the expectations of the Associate Minister of Energy. He wants:

- Increased petroleum reserves;
- New exploration companies in New Zealand;
- More, and good quality, exploration wells;
- Greater liquidity in the industry; and
- More activity outside Taranaki

The expectations of industry

Interestingly, the expectations of industry have been more diverse, but no less emphatically expressed.

Mike Patrick has spoken of PEANZ's desire for:

- A Government supported strategy that establishes a clear role for indigenous gas as part of our energy future; and
- A direct answer to the question of new incentives for exploration and production.

Chris Stone has echoed the need to encourage greater exploration activity if dependency on importing energy sources is to be avoided or minimised.

Richard Tweedie has put forward some very specific options for changing the fiscal regime for exploration and production.

Peter Griffiths has suggested that whatever we do, we need to do it quickly. A perspective that I fully endorse.

Outside the speeches I have had many interesting conversations on what would work best for individual organisations.

One company said they considered they were reasonably happy working under any framework, provided we ensured that the geo-technical data was developed and made available for them to reach their own conclusions as to the business case for investing in NZ.

Another has said that we run a good blocks offer process, but we then unnecessarily delay the selection and permit issue process.

And another has queried our selection criteria for permits, asking whether we really have the right blend of capability and capacity in the NZ exploration industry.

All interesting and valid concerns or expectations, but how do we synthesise them into a coherent plan?

The plan for action

It would be simplistic to say that the Crown funds our policy and investment activities and that industry, which funds the day to day administration of the mineral estate, can demand nothing more than an efficient and effective regime. Fortunately such a distinction overlooks the common interests of industry and Government, and the considerable interdependencies which exist between good policy, good promotion, and good regulation.

With these common interests and expectations in mind, we have developed a strategic direction for the mineral estate.

Priorities

Consistent with the funding for and structure of Crown Minerals, we have emerged from the restructuring with three priorities for the Crown mineral estate:

- Advocacy for it;
- Stimulating investment in it; and
- Effective regulation of it.

Advocacy

By advocacy, I mean that expressing timid or status quo views will not enable ministers to make the right decisions. They must receive all the relevant information and hear all the points of view.

In the short time I have been involved with Crown Minerals I have heard a consistent cry for a strong voice within Government to provide an informed perspective on industry. You will note that I do not say advocacy for industry. This is deliberate.

However, advocacy for effective and responsible development of the mineral estate is essential. It is not the only consideration that will drive government policy decisions regarding the use of natural resources and New Zealand's energy needs, But it is an important factor, and requires good empirical information about its economic value, as well as a sound business and technical understanding of the issues that will influence the development of it.

It is our role to provide this perspective – while recognising that other factors may ultimately hold sway.

Investment

On the promotional side, we must recognise New Zealand suffers inherent difficulties that can only be countered by an aggressive strategy to actively promote the counterbalancing virtues of investing in New Zealand. Publishing glossy colour brochures about the merits of New Zealand to all and sundry will get us nowhere. We have reached a point where we need to vigorously enter into negotiations with targeted parties to either come to NZ or to expand their activities here.

Regulatory effectiveness

And to effectively manage the mineral estate, we must successfully walk the fine line between industry enabler and industry regulator. Our requirements and processes should be as “invisible” as possible allowing you to get on with your business. At the same time, however, our standards for participation should be well-understood and when breached, there should be confidence that they will be quickly, fairly and consistently enforced.

The Deliverables

What do these priorities mean for those within the petroleum industry? Or to put it in more relevant terms, what can you expect Crown Minerals to deliver as regulator in the foreseeable future?

Based on the discussions of the past three days, I offer the following:

1. A more visible profile for Crown Minerals in developing or contributing to policy developments. Whatever the policy issue, if it affects the mineral estate, the advice of Crown Minerals must be part of the policy equation.;
2. Consistent with our advocacy role, we will lead a review of incentives for petroleum exploration and production. The Associate Minister has already announced the commencement of this work. We intend to deliver interim advice to him and other key Ministers within the month;
3. At a higher level, we will document and implement a national investment strategy for petroleum that provides certainty, clarity and consistency for those considering investing here. This document will be completed, with industry input, by the end of June;
4. A comprehensive, web-accessible database of geo-technical reports and permitting information is essential to enable faster and better-informed exploration decisions. We have completed a requirements analysis which will be shared with PEANZ at their next monthly meeting. We expect to have financial approval for the development by the end of June week, with progressive implementation of the new system by the end of next year. This will put us at the international forefront of those regulators making effective use of IT to promote their country;
5. A new Minerals Programme for petroleum which sets the minimum reasonable regulatory requirements will be completed this year. A review of the existing AFO and blocks offer processes with a view to establishing quicker and simpler allocation processes will be a key component of this;
6. And finally, we will establish a clearer, simpler, and more rigorously enforced, compliance regime.

In a nutshell, we believe that if we can:

- a) Provide greater information to aid investment decisions,
- b) Effectively and positively influence the ongoing regulatory and fiscal framework, and
- c) Ensure that only those who are positively contributing to exploration and production are allowed to enter and remain in New Zealand;

we will contribute to the cumulative expectations for more industry “players”, more wells, more reserves, and more production.

That is our “report card” and I hope that it demonstrates that we have indeed been listening to you over the past three days. I also hope you will return here in two years time to score our performance.

However, before concluding this speech, I would like to pick up on Chris Stone’s comment that, “*the post-Maui challenge has become a crisis.*” Crown Minerals will only be one, relatively small, factor in the success of the petroleum exploration in NZ. Wider Government will also play a part. However, would like to suggest that there are some questions that also need answers from, and action by, you the industry players.

Some things to consider are:

- If permit holders are allowed to sit on acreage in the speculative hope of a cash-rich partner, only to surrender the permit without progress years later, are we going to have the speed of development we require?
- If downstream organisations dependent on a vibrant NZ gas industry do not actively get some skin in the exploration game, will exploration market have the liquidity needed? Encouragingly, recent announcements indicate a positive response to this question.
- If the NZ industry does not actively and constructively seek to overcome New Zealand’s reputation (deserved or not) for being closed place for the litigious-minded are we going to attract potential new explorers? and
- And are regulators, policy makers and industry going to agree on the considerable common ground, not to mention common interest, in working towards making improvements to the existing regime, while also recognising the some differences will inevitably remain?

Food for thought for all of us on our return journeys. So to all or you, and particularly those who have travelled some distance to get here, I would like to sincerely thank you for making the trip and I wish you all a safe trip home.