

# PEPANZ CHAIRMAN'S ADDRESS

*Our petroleum future*



**NZ PETROLEUM SUMMIT**  
**19 SEPTEMBER 2012**



**CHRIS BUSH**

**(This speech is accompanied by a video presentation and slideshow)**

Good morning and welcome to the New Zealand Petroleum Summit 2012.

When people ask what the benefits are of having a strong and prosperous oil and gas industry here in New Zealand we readily answer by listing off the economic benefits.

The fact that here in New Zealand we are the 4<sup>th</sup> largest exporter; we contribute billions of dollars to the governments revenue, grow local economies and provide more than 7,000 jobs to Kiwis nationwide.

But we are about more than just numbers and figures.

There is a human face to our industry – and you saw many of those faces in the opening video clip. Daughters, fathers, sons, neighbours and mates you might have a drink with down at the local pub.

Numbers are a small part of our contribution to New Zealand. Our industry relies on thousands of people– the importance of the industry to them cannot be explained by comparing percentages or by using clever pie charts.

When we talk about the billions of dollars we contribute towards government revenue we are talking about money that helps pay for social services that Kiwis have grown to depend on. Notably the big three: Health, Education and Social welfare.

7,000 jobs – that's 7,000 families that rely on the industry to put food on the table and pay the bills.

It is too easy for opponents to dehumanise our industry to make it about operations, technology, work sites, rigs and ships. But our industry is full of real people, with real jobs, real families and real businesses. And that is what our industry is proudly about.

Right now in New Zealand 160,000 Kiwis can't find work. Most of them young New Zealanders, most living in our provinces. Every day more Kiwi's depart for greater opportunities across the ditch.

I am not saying that oil and gas is the silver bullet to our economic woes – but its growth is a step in the right direction.

Increasing oil and gas exploration is not just about growing industry – it's about growing opportunity.

The chance to increase our industry's contribution to New Zealand's economy, and a chance to grow much needed jobs in areas outside our major cities.

For nearly 150 years the oil and gas industry has operated in Taranaki without major incident. The industry is very much part of the community and the public are used to having the oil and gas sector operating within their towns.

That is not the case for the rest of New Zealand. They don't have the level of familiarity with the oil and gas industry that we have come to enjoy in Taranaki.

Instead, many have built their perception of the industry on international incidents and opinion.

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Some have been fed mistruths for political gain; others have been subjected to scaremongering and emotive debate. And sometimes it's just misrepresentation of the data.

We need to do more to put the facts in front of people, to provide information that will not only rebut the mistruths, but give the public confidence in the way our industry operates.

Informing public opinion and dispelling mistruths will help grow public confidence in how we operate as an industry. And public confidence is what the government needs if it wants to turn its goal of increasing oil and gas exploration, into a reality.

To ensure that commitment is more than a lofty goal, the Government and Industry needs to put the groundwork in to make sure it happens.

And a large part of that groundwork includes growing energy awareness in communities.

We need to take the time and explain why it is important to grow oil and gas exploration here in New Zealand, so communities have an understanding of the benefits and the future energy situation we may face without it.

Energy is the most important issue of our time. Because it underpins absolutely everything in our modern world.

Here in New Zealand renewables only make up 40% of our energy supply (not three quarters) – oil and gas is the largest contributor and provides 55% of our energy supply. Our energy demand is growing linearly with population.

Growing renewable energy sources is something we should all be investing in – but the reality is that even with huge investment – it is unlikely renewables will make up more than a third of our energy supply in 2025 with oil and gas still heavily relied on.

So as much as you and I would really like to switch on to renewable energy tomorrow – the reality is we are just not there yet.

Those that oppose oil and gas extraction, hydro dams, wind farms and want to keep the 'coal in the hole' fail to address one simple fact. We need energy for life. And it's not just for transportation.

The use of oil has a reach longer than the pump at the petrol station.

The latest iphone 5, hearing aids, medical supplies and even gumboots. All of which are made from oil, made by machinery and systems dependent on oil, and transported by oil as either petrol or diesel fuel.

There is no easy answer to the way we address demands on our future energy supply. A part of it is investing more in renewables, becoming more energy efficient as a country – but also finding more oil and gas here in New Zealand will play an ever increasing role.

The oil and gas sector effects every aspect of the New Zealand economy – from contributions to our country's revenue through tax and royalties – to the pay packets our workers take home.

And we have choices.

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One way to look at this is via the hypothetical elimination option. If we were to cease all oil and gas activities, not only would we need to find more than 7,000 more jobs we would need to increase GDP from other activities to compensate.

For example if from Dairy, we would need to increase the national herd by 50% to 9 million cows!

And we would still be importing all of our petroleum needs.

So we have options:

- a) We could continue to grow our agricultural base and import our oil and gas needs or,
- b) We can grow our industry through exploration, appraisal, development and production. Producing New Zealand's oil and gas, creating jobs for New Zealanders and prosperity for the nation.

Many of the young Kiwis who spoke in the opening video had travelled the world working for the oil and gas industry – in places like Brazil, Ghana, and Kazakhstan. But after having a good look around and gaining international experience in the industry – they came home. To start families, buy houses – but most came home because of the Kiwi outdoors life style.

Our industry, despite propaganda from naysayers, does care intensely about the environment.

Our brand as a clean, green nation is internationally renowned. Our scenic landscapes, beautiful beaches and picturesque mountains are what bring visitors to our shores.

Being clean and green is a part of our national identity, something we are all very proud of and have an emotional attachment too.

All of us here know how stringent our industry is on environmental responsibility. It is a responsibility that has become second nature to us.

We need to become better at explaining this to New Zealanders – at letting them know we don't just manage environmental risks - we do our best to eliminate them.

Environmental safety is the responsibility of our industry, our companies and our workers.

And we take this responsibility seriously.

Wow! Isn't that beautiful!

You know we can have our pie and eat it too.

As a country we don't have to choose between growing the oil and gas industry and keeping our environment clean and pristine.

We can have both. This by the way is Norway.

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Norway is a country very much like New Zealand in many ways. Population, land area; but we have almost twice the EEZ and territorial waters.

Oil and gas activities on the Norwegian continental shelf have been the driving force in Norway's economy for more than 40 years. The Norwegians have 250,000 employed in their industry and export their skills and expertise around the globe. Their GDP is nearly 3 times ours and their GDP per head puts them at number two in recent world rankings. They have successfully invested their royalties' stream to grow their economy. One example is their Government Pension Fund value which is 40 times greater than our own. And for those that don't like GDP as a metric, Norway comes in at number 2 in the OECD Better Life Index.

We are similar in size and population – but one of us has a booming oil and gas industry, and the other has potential.

We often compare ourselves to Australia but Norway really sets the standard and shows the real economic benefits of a strong and prosperous oil and gas industry.

As a country we are woefully under explored. In NZ we have 15 times more area in our EEZ below the sea compared to land.

Exploration of our offshore basins is essential, the largest discoveries we have made to date are off shore.

But to be successful in the offshore basins, we need access to prospective acreage, we need to shoot seismic and drill exploration wells. If the chance of a discovery is 10-20% for an exploration well, that means 8 or 9 exploration wells will be unsuccessful. We have already seen this playing out in the Taranaki offshore where of 82 exploration wells drilled to date only 5 have resulted in a commercial discovery.

Outside of Taranaki no basins have had more than 8 exploration wells drilled, the rest have 5 or less and many have none.

When we compare NZ to other jurisdictions, Norway have been drilling 10 to 40 exploration wells per year since the late 1960s. They also have many more companies operating bringing diversity, capital and sharing the risk. Since the mid-70s Norway has been self-sufficient and their oil exports have peaked at 20 times their domestic consumption.

Similar trends were observed in the UK Continental Shelf. There were 14 wells drilled in the UKCS before the first gas discovery and 130 wells drilled before the large Forties oil field was discovered.

It is not surprising therefore with only 27 wells drilled outside Taranaki and less than 5 in most Basins, we have not yet seen the endowment our nation holds.

Fundamentally, we are not attracting enough capital and companies to NZ to explore for oil and gas.

So why is this????

Yes we are remote and yes we are not connected by pipelines to a large market.

But there are other reasons why explorers are choosing to put their capital at risk elsewhere.

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The recent Fraser Institute – Global Petroleum Survey provides some answers.

While New Zealand ranked 20<sup>th</sup> out of 147 jurisdictions in terms of barriers to oil and gas investment there are areas where we need to do better.

The top 3 deterrents for investors looking at coming into New Zealand are:

Uncertainty concerning environmental regulations,

Disputed land claims, and

Uncertainty concerning protected areas.

We need to take these concerns seriously – both government and industry need to work together to ensure we send a clear message to potential investors that we, as a country, are open for business and what the rules are.

Without this injection of capital and expertise we will not achieve the potential our industry can deliver for all New Zealanders.

So where to from here? We know that achieving the success we see in other countries like Norway will take a strong working partnership between Government and Industry.

And as the industry body, PEPANZ wants to uphold its end of the partnership. You are already seeing the benefits of a better resourced and funded PEPANZ.

We are committed to promoting transparency and open reporting from all our members.

We also know that part of our job is to visit community groups, such as taking speaking slots at RSA's up and down the country and meeting with as many people as possible so we can put the industry's cards on the table, showing New Zealanders the huge impact growing the oil and gas industry can have on their quality of life and give them confidence that we operate in a way that both protects the environment while growing local economies.

We can ensure that our members implement world best practice models, operate in a way that does not damage our surrounding environment and continue to protect the health and safety of our workers.

Working hand in hand with Government on regulations and legislation affecting the oil and gas industry is important to ensuring that we stabilise our regulatory environment so investors can be assured New Zealand is an attractive and stable jurisdiction to do business in.

The Government also has an important part to play.

To take the Industry forward the government needs to provide:

- **A stable and workable environmental and health/safety legislative regime**

We support the establishment of the High Hazards Unit in the Department Of Labour and the EEZ Legislation. However ensuring the enabling regulations which are to follow facilitate development of our industry AND protect the environment and Health and Safety of the workforce is critical to us all.

In this regard we are aligned with the submission from the Taranaki Regional Council who has a 30 year

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successful record of regulating the oil and gas industry within the 12 mile limit. Oil and gas exploration is temporary in nature and should be a permitted activity PROVIDED environmental and safety conditions are met.

- We need Certainty of process and timing from the approving agencies  
- both central and regional
- Those Government and Regional agencies providing approvals need to be clear on their mandate and jurisdiction and be appropriately skilled and resourced
- As a nation we need the two treaty partners to come to a resolution of outstanding Maori claims that are hindering access and discouraging investment. We need to move on and together build this nation for our children, grandchildren and all New Zealanders
- The blocks offer process is helping to raise the profile of NZ internationally. However it needs to be improved in the areas of process, timeliness and coverage (or where acreage is available).
- Once we have gone through the approvals process, like any person, an industry participant should be able to go about their lawfully permitted activity without interference. With rig spread rates costing from half to over one million dollars a day disruption by fringe sectors of society will always be a risk. While we respect the right of free speech, explorers also have rights. The current legal provisions are too weak and we call for spatial exclusion zones around operating MODUs and seismic vessels.  
There needs to be real consequences for breach of the exclusion zone.
- We propose a joint industry / government task force to identify road blocks and barriers to implementing New Zealand's Energy Strategy. What are the barriers? Where is the duplication and overlap? What needs to change?  
Within 90 days we would expect this Task force to deliver an agreed prioritised change management plan which will bring about a quantum shift in our exploration, appraisal and development activities.
- And as with PEPANZ, the Government needs to be proactive in Positioning the importance of the industry to New Zealand's future in the communities mind and how all New Zealanders benefit

There are challenges, but each one can be overcome.

We have seen it happen.

And we would like to see it happen here in our own backyards.

I believe if Industry and Government work in partnership we can build a legislative and regulatory framework that will entice investors, have them operate in a way that protects the environment without hindering business, work with New Zealanders to get Kiwis backing Industry growth, and along the way we will find more oil and gas; we will grow

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government revenue, create jobs where they are needed, bring some of our best and brightest home and build a prosperous country every Kiwi can be proud of.

The oil and gas industry has been part of New Zealanders landscape for 150 years. And we will be here for many more. We are part of our nation's history, and will play an important part in its future.

Thank you all for coming to our first Petroleum Summit, I hope you enjoy your time with us.