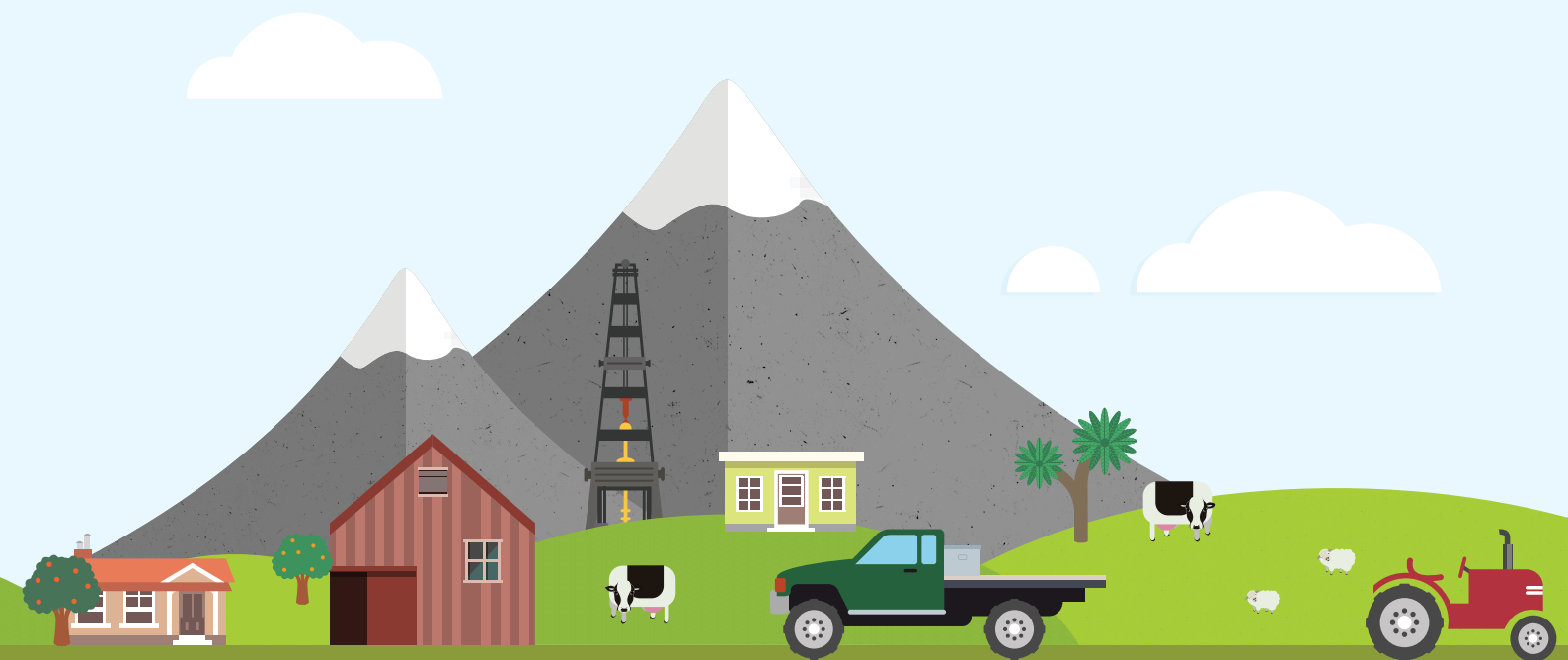


BRIEFING TO THE INCOMING MINISTER





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EXECUTIVE SUMMARY

Oil and gas production plays a vital role in the New Zealand economy.

The upstream oil and gas sector annually contributes over \$2.5 billion to New Zealand's Gross Domestic Product (GDP), and every year the Government collects approximately \$500 million from royalties and income tax from the sector. Oil exports are worth approximately \$1.5 billion per annum.

The industry creates 11,000 jobs nationally, and many of these jobs are highly skilled and specialised. In fact, oil and gas workers earn twice the national average salary and create seven times the average income earned per annum, money that is spent in local communities.

Currently New Zealand's oil and gas production is concentrated in one region – Taranaki. The contribution the sector has made to Taranaki has been profound. Oil and gas production has led to Taranaki having the highest regional GDP per capita in New Zealand, at over \$80,000 (compared to a national average of \$51,000).

Oil and gas production accounts for 41 percent of Taranaki's regional GDP and provides two percent of the region's employment.

The Taranaki basin, however, is one of only 17 sedimentary basins that surround New Zealand, and it is widely agreed that each of these other basins has the potential for oil and gas deposits similar to those found in Taranaki.

A significant discovery in just one of these other basins has the potential to transform the region where the discovery is made – delivering significant new investment, providing high quality jobs, and bringing new businesses to the area. Discoveries in a number of basins would be nothing short of transformational to both our national and regional economies.

In a highly competitive world where capital is increasingly mobile, it is vital that New Zealand has enabling and stable policy settings, a world class regulatory environment, and good information available on the geology of its prospective petroleum basins.

Oil and gas reserves are owned by the Crown on behalf of all New Zealanders. PEPANZ, therefore, strongly believes all New Zealanders should benefit as much as possible from their use as part of the energy mix. To realise the full potential of New Zealand's oil and gas resources, it is vital that the country has the right policy settings and appropriate investment into the estate. Only then will New Zealand's petroleum sector maximise its contribution to regional economic growth, national prosperity and global energy sustainability.





PEPANZ

The Petroleum Exploration and Production Association of New Zealand is the industry association of the upstream oil and gas sector.

Established in 1972, PEPANZ works with local and central government to ensure New Zealand's regulatory and commercial framework promotes investment, and that the return from the country's oil and gas resources is maximised for industry, government and the community.

PEPANZ also seeks to increase community and government understanding of the industry by publishing information about the sector's activities and economic importance to the nation.

PEPANZ advocates for, and supports, most of the major companies that explore for, and produce, New Zealand's oil and gas. PEPANZ Members currently account for an estimated 95 percent of New Zealand's petroleum production.

PEPANZ believes that developing New Zealand's oil and gas sector can enrich New Zealand's future – the future of Member companies, communities and the economic future of New Zealand's regions.

As representatives of New Zealand's oil and gas industry, PEPANZ also provides Members with strong representation and advocacy, leadership for industry wide issues, while engaging openly and honestly with New Zealanders.

PEPANZ also represents more than 50 associate member companies that provide a range of goods and services to the industry.

PEPANZ Priorities

Advocate

Fair, transparent and workable regulatory environment

- Policies needed to responsibly advance the sector are understood
- Regulatory system review drives needed improvements
- Specific issues resolved (e.g. Decommissioning and EEZ implementation)
- Sensible District Plans
- Effective relationships with key stakeholders

Engage

Trusted by New Zealanders

- Regarded as an authoritative and reasonable voice in the debate about the future of energy and environment
- Increased public knowledge, favourability and trust in the sector
- Effective relationships with key stakeholders

Support

Valued by Members

- Increased networking opportunities for Members
- Responsible and responsive to Members
- Relevant and regular communication with Members
- Outstanding conference
- Effective relationships with Members

OUR BOARD

PEPANZ is governed by a Board that is elected annually from our Members. The Board meets quarterly, and sets the strategy for the organisation as well as monitoring the delivery of the Business Plan.



Rob Jager

Chairman
Shell New Zealand



David Coull

Deputy Chairman
Bell Gully



Gabriel Selischi

Representing Large Producers
OMV



Maceon Cooper

Representing Large Producers
Origin Energy



Colin Cruickshank

Representing Large Producers
Todd Energy



Max Murray

Representing Medium Producers
TAG Oil



Andrew Jefferies

Representing Medium Producers
New Zealand Oil & Gas



Alan Seay

Representing Exploration Companies
Anadarko Petroleum Corporation

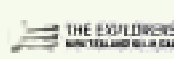


Nick Jackson

Representing Associate Members
Elemental Group



BELL GULLY



WHO WE ARE > Meet our team of professionals



Cameron Madgwick

Chief Executive

Cameron is the Chief Executive of PEPANZ, a role he took up in September 2014.

Cameron's interest in the oil and gas industry started at an early age. Growing up in Taranaki he saw first-hand how a strong and robust oil and gas industry can truly benefit a community – both their financial and social well-being.

With the knowledge he has gained as Chair of the Community Law Centres o Aotearoa, his background as a lawyer and the work he has done in various community engagement roles, Cameron is committed to ensuring New Zealanders have access to factual, honest and transparent information about the oil and gas industry, and strongly believes that growing the industry is vital to ensuring our energy security and strengthening our regional economies in a responsible and environmentally friendly manner.



Andrew Saunders

Policy Manager

Andrew leads the PEPANZ Policy and Regulatory Work Programme and works closely with both central and local government, ensuring the industry's views are strongly represented.

Andrew joined PEPANZ from the Ministry of Economic Development, where he developed an in-depth understanding of all aspects of policy development and its resulting implementation, including engagement with Ministers, select committees and stakeholders.

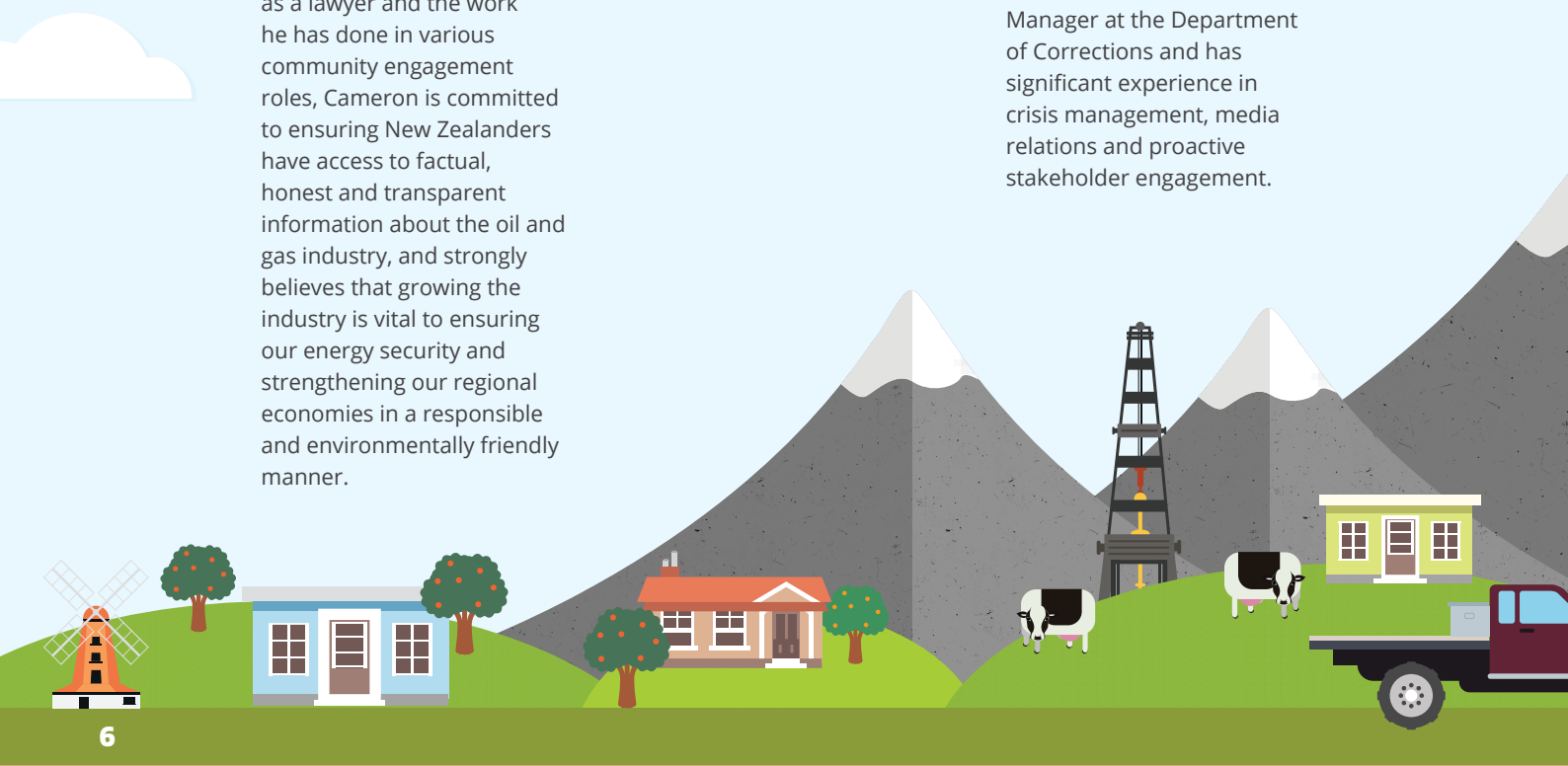


Stephen Jones

Communications Manager

Stephen leads the development and implementation of the PEPANZ Communication Work Programme, ensuring that as an Association we are engaging proactively with stakeholders, media and the public.

Stephen joined PEPANZ this year after several years working in Parliament as a ministerial adviser across a number of high-profile portfolios. Prior to Parliament, Stephen was External Relations Manager at the Department of Corrections and has significant experience in crisis management, media relations and proactive stakeholder engagement.



INTRODUCING...

NEW ZEALAND'S ENERGY MIX



Jeanette Nel

Office and Events Manager

Jeanette takes the lead role in managing PEPANZ events, and is critical to the success of the annual New Zealand Petroleum Conference.

Jeanette joined PEPANZ in 2015 and is an accomplished Executive Assistant with extensive and proven experience in event management. With over 10 years' experience in corporate event management and executive business support roles, Jeanette is also responsible for the smooth running of the PEPANZ office.

In 2016, PEPANZ was proud to launch www.energymix.co.nz, a website providing accessible and easy to understand information on New Zealand's oil and gas sector right to the home computers and smartphones of New Zealanders.

The website provides honest and transparent information about the industry, including the challenge of ever increasing demands for energy, the future role of oil and gas given the need to respond to a changing climate, and the economic benefits our industry can deliver to the country.



www.energymix.co.nz



OUR MEMBERS

We are proud to both represent and advocate on behalf of our 72 Members, who through their activities are helping grow the New Zealand economy and secure New Zealand's long-term energy security.

Our membership is made up of wide range of companies in the oil and gas sector – from some of the world's largest multinationals, right through to local companies who provide a range of essential services. Together, our membership is responsible for an estimated 95 percent of New Zealand's petroleum production and this scale allows us to advocate successfully on their behalf.

Large Producers



Medium Producers



Large Explorers



Small Producers/Small Explorers



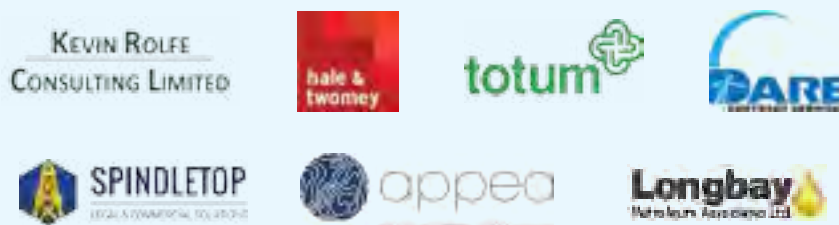
Field Operations Servicer Providers



Non-field Service Providers



Others



Janet Carson

Dr. Peter Kamp

Safe Work Solutions

Star Offshore Services

Te Iti Kahurangi Ltd



OIL AND GAS IN NEW ZEALAND

Oil and gas production has a long history in New Zealand. In fact, the very first well dug in the British Commonwealth was drilled at Moturoa, on the New Plymouth foreshore, in 1865.

Over subsequent years, numerous other wells appeared but these were small and sporadic. The development of new technologies, such as acoustic imaging and deep rotary drilling, resulted in the discovery of the large onshore Kapuni gas-condensate field in South Taranaki in 1959. This discovery allowed the development of the North Island gas transmission network, bringing gas directly to homes and businesses in urban centres.

In 1969, the massive Maui gas-condensate field was discovered. At the time, it was one of the largest in the world and provided New Zealand with cheap and abundant gas for over 25 years. There are now 20 producing oil and gas fields in New Zealand, all of them based in Taranaki.

While production varies in any given year, in the last 10 years New Zealand has generally produced anything from 10 million barrels to 20 million plus barrels of oil, between 150 to 200 billion cubic feet of gas, and 1 to 2 million barrels of LPG every year.

The development of New Zealand's petroleum resources over the last 50 years from just one petroleum basin in Taranaki has generated wealth and enabled the development of a range of industries.

Royalty and tax income from the sector has delivered billions of dollars to Government, which has been used to fund investment in social and economic infrastructure and public services. Billions of dollars more have been invested by the industry into the development of New Zealand's oil and gas fields, and more still on midstream and downstream infrastructure and related industries.

Gas is also an essential feedstock for many industrial activities, such as methanol production and urea fertiliser for agriculture,

industries that simply wouldn't exist in New Zealand without a ready supply of reliable natural gas. Gas also supports a range of economic activities that require heat, such as furnaces, milk drying, timber processing and steel production.

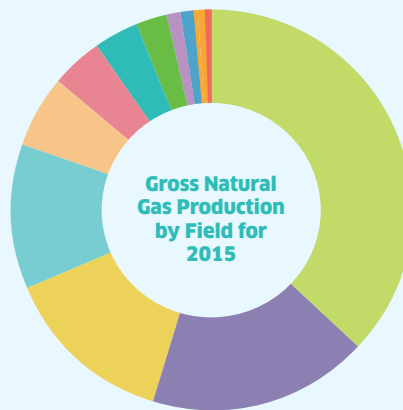
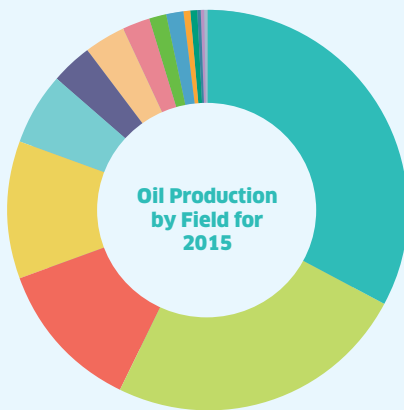
While New Zealand is currently self-sufficient for its gas needs, further exploration and discoveries will be required to ensure this continues. If gas supplies diminish, it would be necessary to import natural gas (such as LNG) or make greater use of other energy sources such as coal.

We only produce 35 percent of our oil needs, and continue to incur large costs as a net-importer of oil and oil products. Being able to meet a greater percentage of our oil requirements would help moderate the impact of oil price volatility on the economy.

By international standards, New Zealand remains underexplored but there is genuine international interest in New Zealand's potential, with exploration activities occurring in Taranaki and off the east coast of both the North and South Islands by a number of multinational companies.

There remains considerable potential for further discoveries. Whilst the ultimate extent of New Zealand's petroleum resources remains uncertain, successful exploration and development in these basins would significantly contribute to economic development both nationally and regionally. There would be significant increases in royalties and taxes paid to Government, considerable export income, and increased employment and economic activity in regions close to any new field.





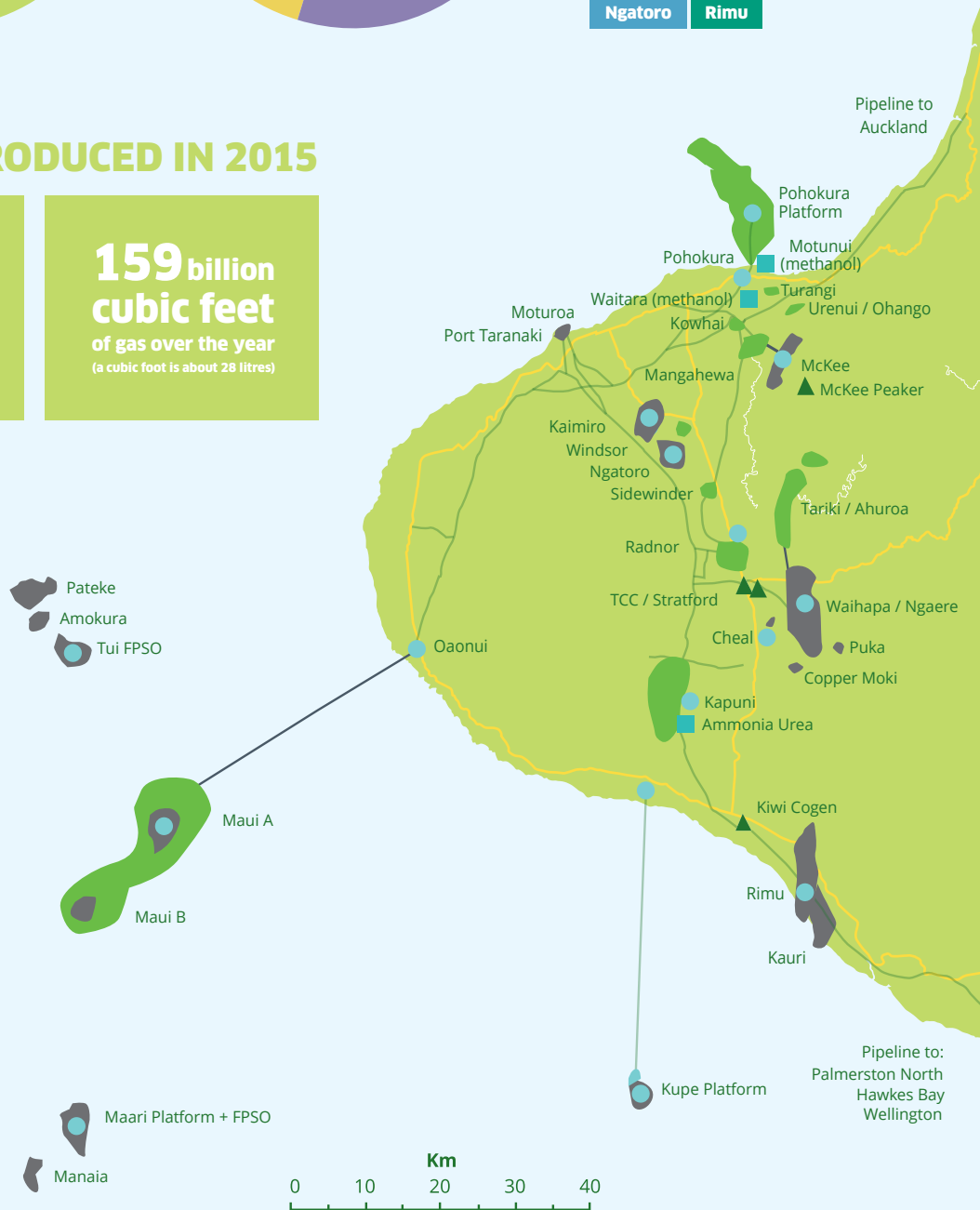
Maari	Maui
Pohokura	
Kupe	Turangi
Mangahewa	
Kapuni	Cheal
Waihapa	
Kowhai	Tui
Copper Moki	
Others	McKee
Ngatoro	Rimu

WHAT WE PRODUCED IN 2015

40,900 barrels
of oil per day
(a barrel is 159 litres)

159 billion
cubic feet
of gas over the year
(a cubic foot is about 28 litres)

- Gas Field
- Oil Field
- ▲ Power Station
- Petrochemical Plant
- Production Station
- Pipelines
- Roads





BLOCK OFFER

The New Zealand Government allocates petroleum exploration permits in an annual tender process called a Block Offer.

The Block Offer process has been undertaken annually since 2012, and the selection of areas for inclusion in a Block Offer is based on their prospectivity and commercial interest.

As part of the Block Offer process, New Zealand Petroleum and Minerals asks the industry to nominate areas to include in the allocation, consults with iwi and hapū in the proposed areas, and discusses the proposed areas with local government.

Information gathered during this consultation process guides the Minister of Energy and Resources' decision on the final make-up of the Block Offer.

The release areas are announced annually at the New Zealand Petroleum Conference, with applications for permits closing approximately six months later. Permit awards are made several months after that.

Bids are assessed on their proposed work programme, and criteria including the applicant's technical and financial capability and capability to meet expected health, safety and environmental requirements.

Block Offer 2015

Successful bids for Block Offer 2015 were announced in December 2015. Nine new oil and gas exploration permits were granted, all in the Taranaki Basin. The successful permits included three onshore permits and six offshore permits. Collectively the permits included a committed work programme expenditure of \$4.4 million, with the potential of more than \$364 million if all contingent work is realised. Permits were awarded to:

- **OMV NZ:** Four offshore Taranaki permits (in partnership with Mitsui E&P Australia Pty Ltd).
- **Todd Energy:** One offshore Taranaki permit.

- **Mont D'Or Resources:** One offshore Taranaki permit.
- **Greymouth Petroleum:** Three onshore Taranaki permits.

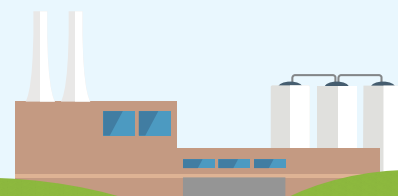
The average offshore block size was around 2,000 square kilometres and the average onshore block size was around 40 square kilometres.

Block Offer 2016

Block Offer 2016 was launched at the New Zealand Petroleum Conference in March 2016, with a successful bid announced on 15 December 2016. One onshore Taranaki permit was granted to Todd Energy, for an area of 219km². Block Offer 2016 included four offshore areas, in the Reinga-Northland Basin, Taranaki Basin, Pegasus and East Coast Basins, and Great South – Canterbury Basin. There was also an onshore release area in Taranaki. Interest in Block Offer 2016 was subdued due to the current oil price environment.

Block Offer 2017

New Zealand Petroleum and Minerals undertook the consultation process for Block Offer 2017 in October and November 2016. Consultation took place on four proposed offshore areas, in the Northland-Reinga Basin, Taranaki Basin, Pegasus and East Coast North Island Basin, and Canterbury-Great South Basins; one proposed offshore/onshore area in Northern Taranaki, and two proposed onshore areas in Taranaki and Southland. The total area under consultation covers 508,691 square kilometres. The Government will announce which areas will be released for tender at the New Zealand Petroleum Conference in March 2017.





THE IMPORTANCE OF OIL AND GAS TO THE NEW ZEALAND ECONOMY

The upstream oil and gas sector contributes over \$2.5 billion to New Zealand's Gross Domestic Product (GDP), the Government collects approximately \$500 million in royalties and income tax from the sector annually, and oil exports are worth approximately \$1.5 billion per annum.

Offshore oil and gas is the largest contributor to New Zealand's marine economy, representing 48 percent of the marine economy in 2013. Offshore oil and gas contribute more to New Zealand's GDP than shipping, fisheries and aquaculture combined.

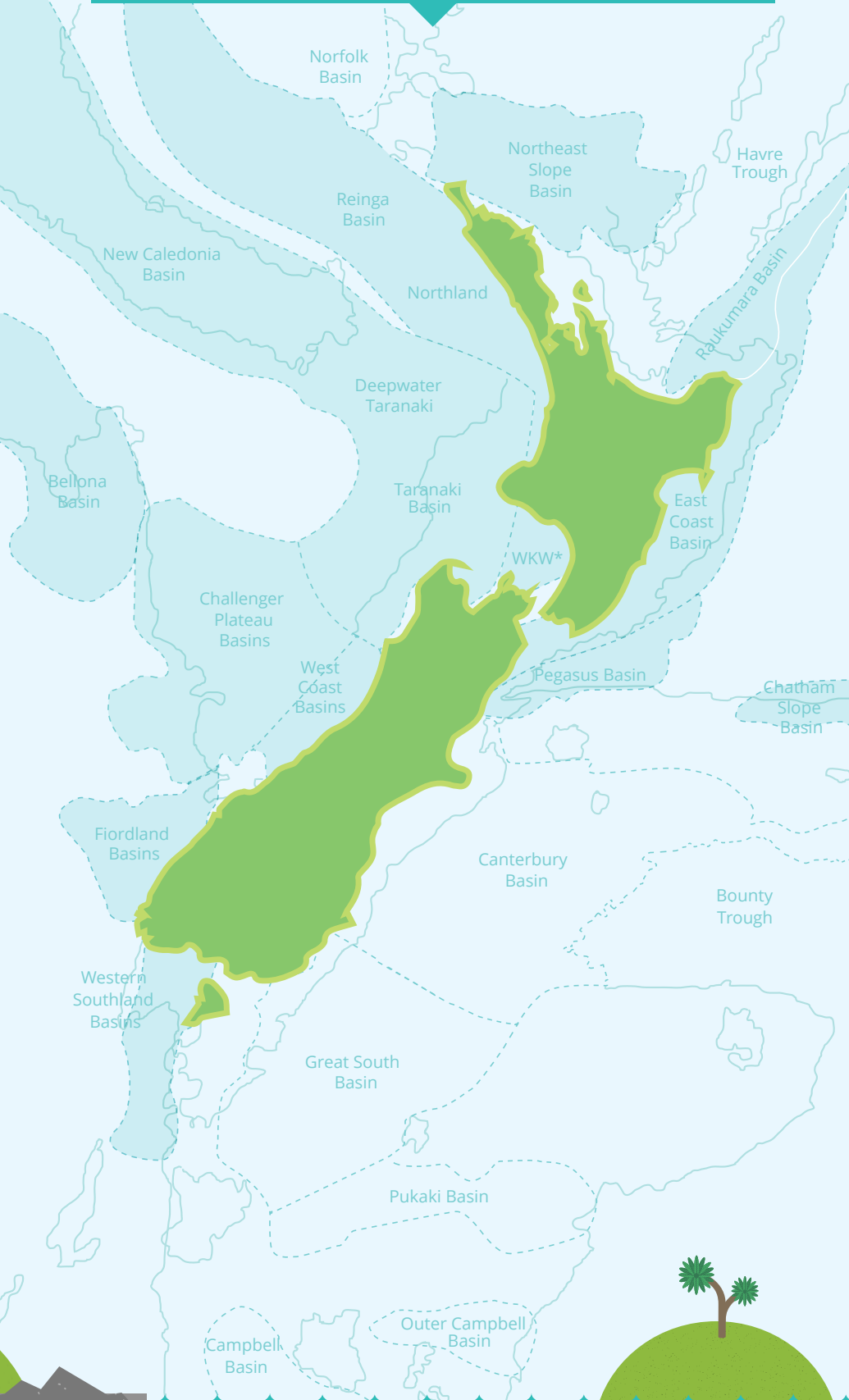
Analysis has shown that a significant find in another basin could have a profound economic benefit, both in the region where the discovery is found as well as to the national economy.

For example, economic analysis shows the discovery of a near-offshore South Island field could mean more than \$3 billion of investment, creating 270 new jobs in the development phase. A far-shore field could lead to \$6.5 billion of investment. A major offshore gas field could mean a massive \$19.3 billion of development spending.

There remains considerable potential for new discoveries. Whilst the ultimate extent of New Zealand's petroleum resources remains uncertain, successful exploration and development in one of these basins would significantly contribute to economic development both nationally and regionally. There would be significant increases in royalties and taxes paid to Government, considerable export income, and increased employment activity in the relevant region.

To realise the sector's potential, PEPANZ will continue to work with you and your officials to advocate for appropriate policy settings. In a highly competitive world where capital is increasingly mobile, it is vital that New Zealand has enabling legislation and stable policy settings, a world class regulatory environment, as well as further information on the geology of its sedimentary basins to encourage targeted exploration.

New Zealand's sedimentary basins



THE NORWEGIAN MODEL

AN EXAMPLE OF A STRONG OIL AND GAS ECONOMY

Petroleum has fundamentally transformed the Norwegian economy.

In many ways, Norway is like New Zealand, with around the same number of people and an extensive coastline and marine area. Oil was first discovered off Norway's coast in 1969, and this was followed by a number of major discoveries.

Norway is now the world's eighth largest exporter of crude oil, and petroleum has fuelled economic growth and contributed significantly to the funding of the Norwegian welfare state and social services – lifting Norway from a middle income European country, to one of the wealthiest in the world, with extremely high living standards.

To ensure future generations benefit from their natural resources, Norway put aside a proportion of the revenue it receives from its petroleum reserves – building a massive sovereign fund valued at \$US875 billion, and which owns around one percent of global equity markets. By comparison, New Zealand's current GDP is \$US173 billion.

Petroleum has also fuelled a services, engineering and construction industry to support the petroleum sector, and Norway's second largest earner is services to the petroleum industry.

THE OIL AND GAS ENVIRONMENT

Energy Demand

Energy demand will continue to grow and oil and gas will continue to play an essential role.

Global energy demand is enormous and it is going to continue to grow. Cheap and reliable energy is essential to power economic growth, not only in New Zealand, but around the world.

Currently, around half of global energy comes from oil and gas, and every year the world uses around 35 billion barrels of oil. As both the world's population and economy continue to grow, demand for energy will continue to increase – particularly in the rapidly developing countries in Asia.

As people become wealthier, they demand more energy to enjoy the lifestyles afforded by the modern world. As economies develop, they also require access to reliable and

cheap energy to power their industries and households.

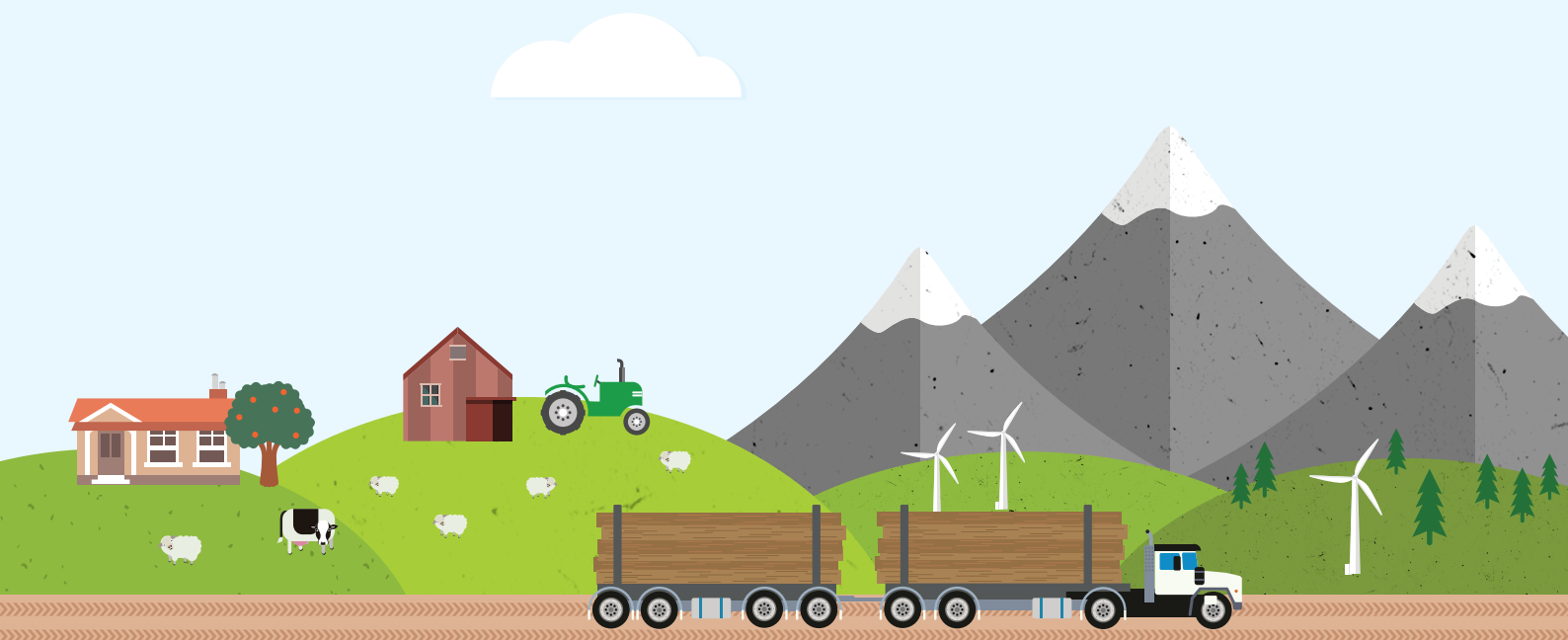
Meeting this demand will require massive global investments in all forms of energy supply and, while the use of renewables will grow significantly in some areas, for the foreseeable future oil and gas will still be the cornerstone of world energy, with forecasts predicting it will still make up over half of the world's energy supply by 2040.

Global production and use of natural gas in particular is also widely predicted to grow over the coming decades because it provides a reliable, cost competitive and clean burning fuel for direct use and electricity generation. It is the lowest emitting fossil fuel, releasing half the CO₂ of coal.



DEMAND FOR LIQUEFIED NATURAL GAS (LNG) IS EXPECTED TO GROW SIGNIFICANTLY, PARTICULARLY IN THE ASIA-PACIFIC REGION.

Should substantial natural gas discoveries be made in New Zealand, our relative proximity to the growing countries in Asia would facilitate potential export of LNG to these countries earning substantial export earnings for the country.



Responding to Climate Change

Reducing greenhouse gas emissions is a global issue that requires global engagement and action.

The 2015 United Nations Climate Change Conference, held in late 2015, negotiated the Paris Agreement, a global agreement to address the challenge of climate change, the text of which represented a consensus of the representatives of the 196 parties attending.

It was agreed to limit the global temperature rise to 2 degrees Celsius above pre-industrial levels, and pursue efforts to limit the temperature rise to 1.5 degrees Celsius.

Under the agreement, each nation is required to set an emissions target. New Zealand has pledged to reduce greenhouse gas emissions to 30 percent below 2005 levels by 2030.

The industry absolutely recognises the profound challenges that exist with a changing climate, and the need to reduce our emissions through greater energy efficiency and lower carbon intensity, investigation of carbon capture, utilisation and storage, and managing methane emissions. At the same time, the demand for energy is also growing as the world

population increases, economies develop, and we become more urbanised.

The world will continue to require access to affordable and reliable energy to power their industries, heat their homes, light their cities and transport their people and goods. While there is no doubt the world's energy mix will change significantly over the coming decades, to meet the world's energy demand we will need to use more of everything.

Around the world, significant amounts of electricity are still generated by coal fuelled power stations. The substitution of coal with natural gas in electricity is one of the fastest, lowest cost and most secure routes to reducing emissions for many countries. Direct use of gas and use of efficient gas technologies can lower energy related emissions.

Natural gas will be an important transition fuel as the world tackles climate change. Natural gas generates the least CO₂ of the fossil fuels, but retains all the advantages. Natural gas is instantly available, offsetting the intermittency of supply by solar and wind power – the sun does not always shine and the wind does not always blow. Gas is also relatively affordable.

NEW ZEALAND'S UNIQUE EMISSIONS CHALLENGE

Unlike most other developed countries, New Zealand has fewer low-cost options to reduce emissions compared with most other developed countries.

While agriculture accounts for a small amount of most countries total emissions, in New Zealand agricultural emissions make up just over 49 percent of total emissions.

Further, unlike many other countries, New Zealand's electricity generation is dominated by renewable energy – with nearly 80 percent of electricity

generated from renewable resources – the fourth highest in the OECD. In terms of our total energy use, New Zealand is only behind Norway and Iceland in our use of renewable energy. This leaves New Zealand with little room to achieve significant reductions in emissions in electricity generation.

Approximately 17 percent of New Zealand's emissions are from transport. In fact, transport emissions are greater than electricity, manufacturing and fugitive emissions combined.

80%

of NZ's electricity
is generated from
renewable sources



Protecting Our People and the Environment

Good health and safety practices are integral to the operation of the oil and gas industry. The sector has some of the most developed approaches to health and safety management and the industry's culture in New Zealand is internationally regarded, stringent and uncompromising, ensuring our workers and the environment they work in are safe. The upstream sector has a constrained footprint and discrete environmental effects. It has primarily operated in Taranaki and regulators both there and nationally have long standing experience with the sector.

**THE OIL AND GAS
INDUSTRY'S SAFETY
TRACK RECORD OVER
50 YEARS IS SOLID
AND IMPRESSIVE.**

While primary industry activity can expose workers to challenging environments, oil and gas workers are safer and suffer less accidents, in gross quantity and per worker, than all other primary industries in New Zealand.

In fact, due to all-encompassing risk management procedures, oil and gas workers at production facilities are around four times less likely to experience an accident in their workplace than they are at home.

The upstream industry is subject to, and supports, thorough regulation and oversight by dedicated and proficient regulatory organisations. In recent years, major regulatory reform of health, safety and environmental legislation has taken place to bring New Zealand's regime into line with global best practice approaches. This has been undertaken as a consequence of increased Government emphasis on the importance of health and safety.

The result of these regulatory reforms is a generally comprehensive and rigorous regime, which is supported by the industry.





DEVELOPING NEW ZEALAND'S OIL AND GAS POTENTIAL

New Zealand's oil and gas reserves have the potential to enrich New Zealand, providing abundant and reliable energy to support businesses and households and contributing to decarbonisation of the world economy over the coming decades.

If we are to achieve this potential, New Zealand's policy settings need to be comprehensive, appropriately designed and integrated.

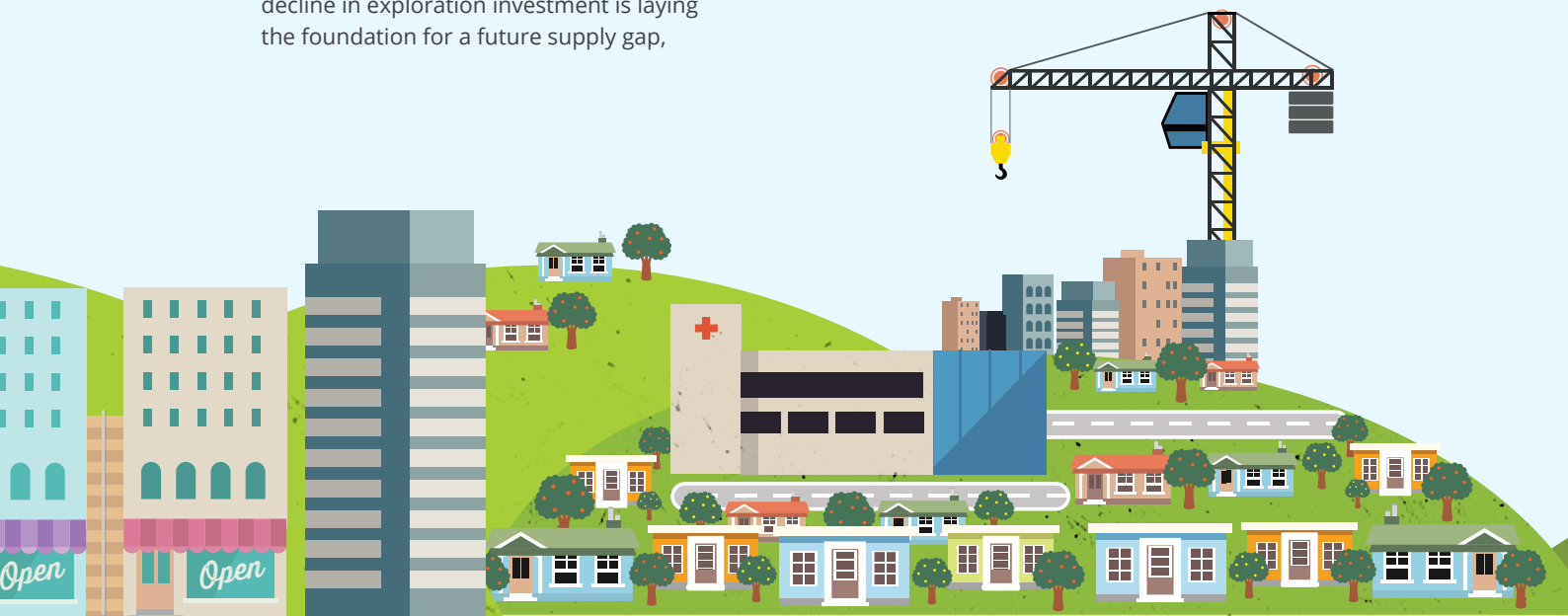
The oil and gas industry is one of the most internationalised industries and New Zealand is competing with many other locations for mobile investment capital. While in many areas, New Zealand is a favourable investment destination, it does have challenges, including the small size of our domestic market, limited infrastructure, the cost of mobilising equipment to this part of the world, and the relatively limited knowledge of what resources might exist due to limited exploration and available information.

The recent fall in oil prices has also seen global exploration activity slow markedly since late 2014, with discoveries falling to the lowest level since the 1940s. This steep decline in exploration investment is laying the foundation for a future supply gap,

which will likely lead to increasing oil and gas prices in future years, and therefore encourage new exploration necessary to bring on new supplies.

It is important that New Zealand is positioned to take advantage of current and future exploration efforts. While the regulatory environment is in good shape, there are a range of initiatives and changes that can be made to maximise the value to New Zealand of its oil and gas resources. There are also areas where we believe it is important that the current direction is maintained.

In the new year, PEPANZ will be releasing its Policy Platform, which outlines the policies that PEPANZ and its Members believe the Government should adopt to realise New Zealand's oil and gas potential and maximise its value to the country.



NEW ZEALANDERS' VIEW ON OUR INDUSTRY

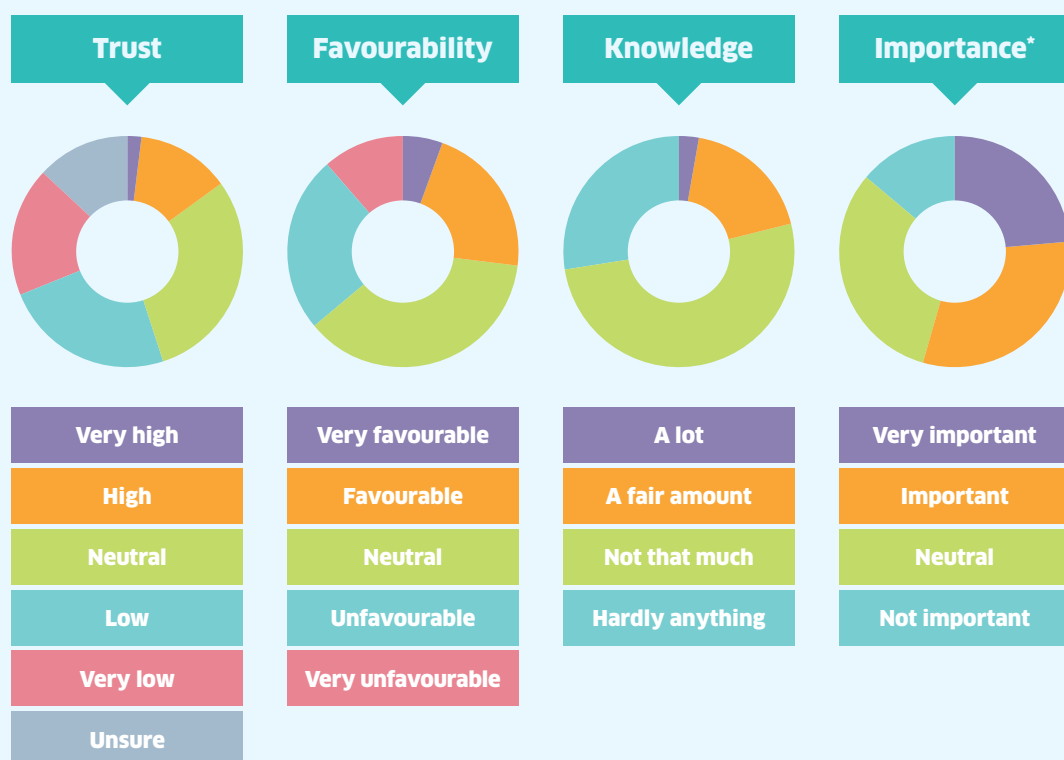
This year PEPANZ undertook a public perceptions survey. The overarching finding of the survey was that while the oil and gas industry is valued, it is not well understood by New Zealanders.

The main reason given by respondents for having an unfavourable opinion of the oil and gas sector was the belief that it was bad for the environment and its perceived negative impact on the climate.

Both knowledge and favourability of the sector were significantly higher among males

than for females, and older respondents were more likely to hold the view that the oil and gas sector is important to the economy.

These types of surveys allow a better understanding of the views of New Zealanders and will guide the PEPANZ communications programme over 2017.



PETROLEUM CONFERENCE 2017

The 2017 New Zealand Petroleum Conference will be held in New Plymouth from 21 – 23 March 2017.

This is the first time the Conference has been held in New Plymouth, the home of New Zealand's oil and gas sector, and provides a unique opportunity to showcase the industry in action.

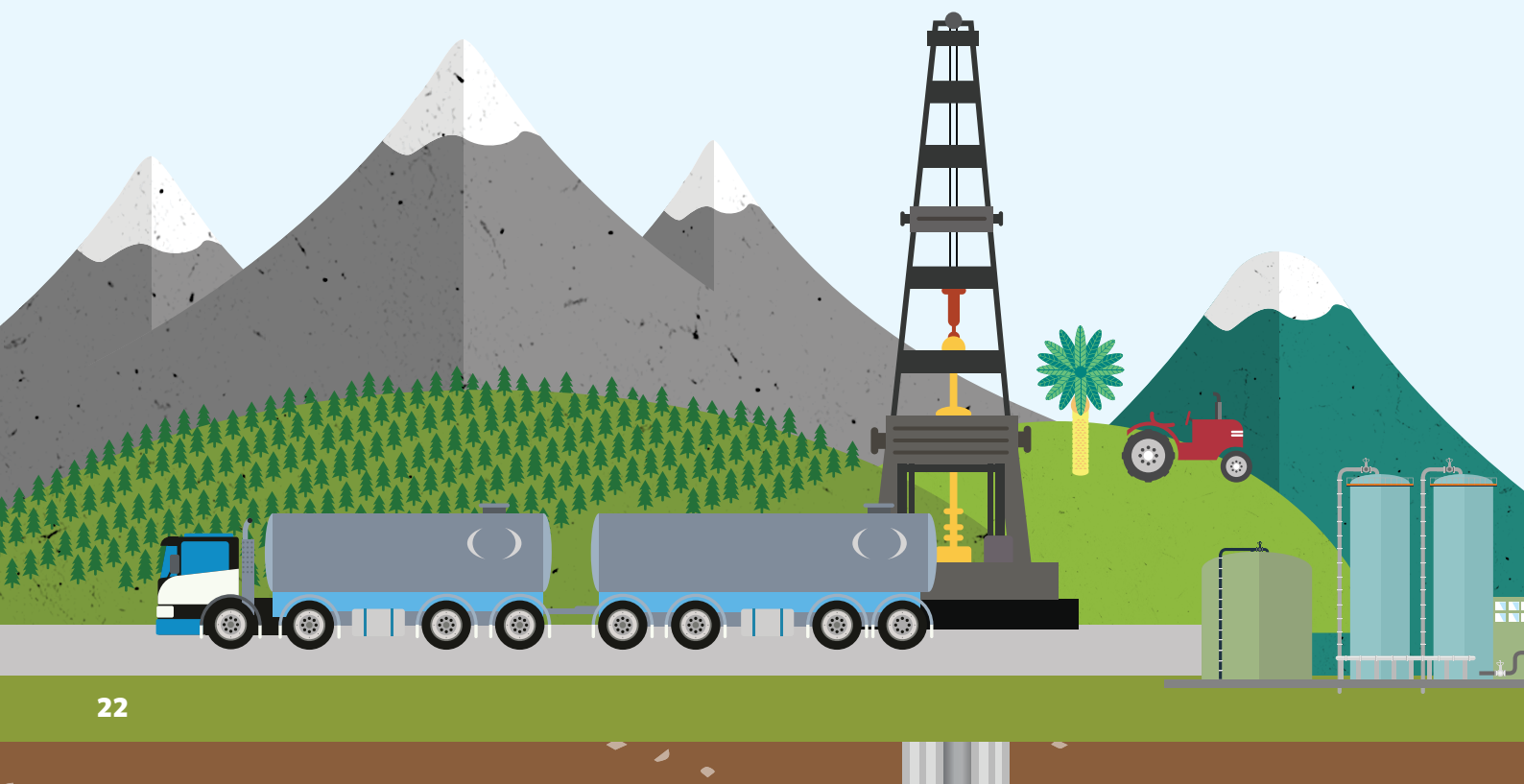
The Conference will attract around 500 delegates from both New Zealand and around the world, bringing together senior government officials, regulators, industry leaders, international experts and service providers.

Traditionally the New Zealand Petroleum Conference has included the launch of the Government's Block Offer 2017, and we hope that you are able to attend the Conference to fulfill this function.

Next year's Conference will consist of three concurrent streams: geoscience; technology and engineering; and community, commercial and regulatory. The Conference also features a number of keynote speakers, including:

- **Professor Iain Stewart:** Director of the Sustainable Earth Institute at Plymouth University and presenter of the BBC Series "Planet Oil".
- **Sverre Planke:** Chief Executive for Norway's Volcanic Basin Petroleum Research, on the implications of volcanism in sedimentary basins on seismic imaging and petroleum prospectivity.
- **Amit Bhandari:** Fellow, Energy and Environmental Studies, Indian Council on Global Relations speaking about how New Zealand can play a role in diversifying India's energy supply sources and fuels.

The Conference will also include a Political Panel, where representatives of New Zealand's political parties will talk about their perspectives on New Zealand's oil and gas industry in the lead-up to the 2017 General Election. We hope you will be able to participate in this Panel.





THE YEAR AHEAD

2017 promises to be another interesting year for the oil and gas sector.

Like all commodity prices, oil prices are cyclical and are dictated by the laws of supply and demand. While demand for oil has continued to increase, this has been outstripped by huge increases in shale production in the United States, combined with increased production from OPEC as the latter sought to maintain its market share. The result was an inevitable oversupply of oil on the international market.

The industry understands that it regularly goes through peaks and troughs, and will continue to do so. The sector has responded by improving the efficiency of current operations and driving improved production out of their existing wells.

The work the industry in New Zealand has undertaken to respond to the recent fall in prices means that it is well placed to face future fluctuations with confidence, but activity next year is likely to remain subdued until it is clear whether the prices have stabilised and are likely to increase further.

The sharp fall in oil prices inevitably led to a reduction in exploration activity around the world, with companies delaying decisions on where they invest their capital resources. In fact, discoveries are at their lowest level since the 1940s. This steep decline in exploration activity will inevitably lead to a future supply gap. In fact, the International Energy Agency suggest this supply gap might start occurring in the early 2020s.

In addition, the International Energy Agency's 2016 *World Energy Outlook* forecasts that the consumption of natural gas and oil will continue to grow over the next 25 years. While renewable energy will be the fastest growing energy source in the decades to come, the reality is that oil and gas will remain the cornerstone of the world's energy supply, still making up over half of the world's energy consumption in 2040.

In fact, the International Energy Agency forecasts consumption of natural gas to grow by 50 percent by 2040. Oil demand will increase at a slower rate, but still reach an incredible 103 million barrels per day.

New Zealand is well placed to help meet the world's growing demand for energy. Despite the dip in oil prices, there is still strong international interest in New Zealand's oil and gas potential. The country remains underexplored by world standards and there is real potential for significant reserves to be found.

Exploration and production is continuing in the Taranaki Basin, currently New Zealand's only producing basin. In addition, exploration activities have, or are occurring, off the east coast of both the North and South Islands. While a commercial quantity of oil and gas has yet to be found in these areas, exploration activities have shown promising signs of working hydrocarbon systems.

To realise this potential, it is important that New Zealand has the right policy settings. The oil and gas industry is one of the most internationalised industries in the world and New Zealand is competing with many other locations for mobile investment capital.

While we believe the current regulatory regime is in good shape, we look forward to talking to you over the coming months about what more can be done to attract investment in New Zealand.

After all, the Government owns New Zealand's petroleum resources on behalf of all New Zealanders. To maximise the value of these resources, the Government not only needs to encourage investment in exploration and development, but also maximise the value of these resources to both national and regional economies to ensure the wealth derived from these non-renewable resources delivers to long-term benefits to the country.

