

Opening Keynote Address

at the 1998 New Zealand Petroleum Conference

Good morning. I welcome you to this seventh New Zealand Petroleum Conference. I am delighted to have the privilege of opening and presenting the first Keynote Address to this, the 1998 New Zealand Petroleum Conference. The Conference is hosted and organised by the Crown Minerals Group within the Operations and Risk Management Branch of the Ministry of Commerce.

While the Conference is organised by officials within my Ministry, I recognise and thank the strong industry sponsorship and support separately acknowledged by Secretary Carpinter in his remarks.

This Conference has attracted over 300 delegates, some third of you coming from overseas. This demonstration of a strong local industry plus the presence of so many visitors from the United States of America, Australia, Asia and Europe bodes well for the development of our industry in New Zealand.

It is my contention and that of my Government that New Zealand can be proud of the achievements of the upstream petroleum industry; an industry which is somewhat unsung and does not get the recognition it deserves. I am sure that these past achievements will be more than surpassed by those of the future as I believe that in Maui, and the onshore Taranaki developments we have only seen the beginning of petroleum production in New Zealand. The theme of this Conference - "New Zealand's basins of opportunity" alludes to the future petroleum exploration and production possibilities that exist throughout New Zealand, as well as in the Taranaki Basin.

I plan to return to the Conference theme - "New Zealand's basins of opportunity" later in my address.

The Government is very aware of the importance and potential of the petroleum industry in New Zealand. We are a very long way from knowing just what New Zealand's petroleum producing potential is. But we do know that last year, and for many years, New Zealand has produced some NZ\$1.5 billion worth of petroleum. This is somewhat less than the amount forecast to be this year's budget surplus. A simple equation which serves to emphasise the importance of the petroleum industry to the country's economy.

From a Government perspective, every barrel you discover makes New Zealand more financially secure. Every barrel you produce is one less barrel we have to buy from overseas, reducing our foreign debt, which is one of the financial objectives of my Government. Every barrel of New Zealand oil you export offsets a barrel we have to import.

This production is for the benefit of all New Zealand. My Government wants the economy to benefit as a whole. It looks far past the royalties it collects in assessing the value of petroleum production to New Zealand.

The Government considers it to be a prime responsibility to provide an economic climate that encourages business in New Zealand. This of course includes the petroleum industry.

New Zealand has always been attractive to foreign investors. It is a stable, democratic country, and is part of the Pacific Rim, the world's fastest growing economic region. Its people enjoy a high standard of living and it has a well educated work force. While its traditional wealth has been built on the export of primary produce, it also has major natural resources that support industries in horticulture, fishing, forestry, manufacturing, tourism, and of course energy.

The country has earned international commendation for its economic policies and for its consistent business environment.

New Zealand needs to attract investment. It has the infrastructure and capital demands of a developed, sophisticated Western democracy. However, as a small country, it has never been able to generate all of its capital requirements domestically. Foreign capital has always played an important part in New Zealand's development.

Since the early 1980s, the New Zealand economy has undergone major and radical reform, with the objectives of reducing inflation, increasing

international competitiveness and liberalising the economy.

Essentially, these reforms have been based on five fundamental measures and policies.

- The Reserve Bank Act 1989 which guarantees the independence of the country's central bank and requires it to give top priority to policies that achieve price stability.
- The Employment Contracts Act 1991 which introduced a new and more productive labour market regime.
- The imposition of Government financial and fiscal discipline, including the Public Finance Act 1989 which imposes modern accounting disciplines on all Government agencies and the Fiscal Responsibility Act 1994 which requires Governments to balance budgets and disclose budget and spending policies well in advance (an end to "financial-management-by ambush").
- Broad-based low taxation policies.
- Achieving and maintaining international competitive-ness.

The impact of these changes has been profound. They have transformed our economy, our society and our way of life. Above all, they have given New Zealanders a new confidence about their ability to meet the challenges of the future.

The reforms have touched almost every sector of the economy. There have been few sanctuaries. Everyone has been affected. The productivity and competitiveness of our industries and services, not least in the public service, have improved remarkably.

The reforms have attracted international attention and comment from organisations such as the IMF and from individuals such as Heinz's CEO, Dr Tony O'Reilly. This comment tends to focus on what could be called the basics of our attractive business environment, viz:

- we have no capital gains tax;
- we do have a "pro-business environment";
- we have a "first class" legal and banking system; and
- we have a "simple political system" (compared with much of the world).

This basic business attractiveness and competitiveness of the New Zealand business environment very much extends to the petroleum industry. Let me be clear in my message to existing and potential explorers and developers. The New Zealand Government has created a competitive, free business environment independently rated as one of the most open in the world. We are open for business; your business.

The Crown owned mineral and petroleum estate has much to offer in building New Zealand's economy. There are mutual benefits for explorers and the nation in the development of the Crown owned mineral and petroleum estate.

New Zealand's oil and gas production currently dominates New Zealand's energy scene, accounting for about 60% of its primary energy supply. For the record the (rounded) energy providers are: oil 31%, gas 29%, solid fuels 11%, hydro 14% and geothermal 15%.

New Zealand is currently about 88% self sufficient in its primary energy needs, but only 41% self sufficient in liquid fuels. This comes from a daily production of approximately 40,000 barrels of liquids and 500 million standard cubic feet of gas.

Of this the Maui Field contributes some 66% of liquid production and approximately 70% of gas production. There has been some recent debate in the media concerning the size of the Maui reserves. The argument however is not if production will decline and eventually cease, but when.

I do not believe that this debate should in any way distract you from the search for replacement gas fields and further oil fields, which is one of the important points we are addressing at this Conference.

A measured challenge for this industry would be, for example, for New Zealand to become 75% self sufficient in liquid fuels before 2005 and self sufficient and a net export of liquid fuels before 2010.

These are real possibilities. I believe they are reasonable targets given the increase in exploration activity this country is experiencing right now. This equates to the discovery of only moderate sized fields in the current search in the eight New Zealand "basins of opportunity" currently being explored.

One pleasing aspect of this Conference is that explorers will be talking about their exploration philosophies and plans. They and Keynote Speakers from the USA and Europe will surely confirm just what the key elements are that attract explorers to a country, and by the implication of their presence, to New Zealand. I will leave it to the practical experts, the exploration professionals, to address this point.

I see that speakers at the Conference will also address a number of what could be called sensitive topics. Examples would be land access and vertical integration in the gas and electricity markets. This is a healthy sign for the industry.

What I will now consider, and what I am pleased to see, is the increase in exploration activity in New Zealand. This is graphically shown in the areas of New Zealand's "basins of opportunity" under permit. The increase in activity can be graphically illustrated by the relative numbers of areas under permit say five years ago, two years ago, and today.

Just over three years ago, on 1 January 1995, the Minerals Programme for Petroleum came into force, shortly followed by the opening of Petroleum Exploration Permit Blocks Offers in the Taranaki, Westland and Canterbury basins. This was followed in September 1995 by the release of the East Coast Basin Petroleum Exploration Permit Blocks Offer.

Consequently, in 1995 and 1996, a total of 24 permits were granted as a consequence of these blocks offer releases, covering some 34,000 km² (8.4 million acres). Thirteen of these permits were in the Taranaki Basin (eight onshore, five offshore), seven permits in the East Coast Basin (four onshore, three offshore) with two each in the offshore Canterbury and onshore Westland basins.

In 1996, at the time of the last New Zealand Petroleum Conference, work programmes submitted for the permits approved provided for the expenditure of \$170 million over the next five years, to be spent on some 5,460 km of new seismic acquisition, the reprocessing of 4,700 km of existing seismic and the drilling of up to 25 exploration or wildcat wells.

Today some of this seismic has been or is being acquired while the dollar commitment to exploration is now extended to be about double this amount; over \$300 million being committed over a similar timeframe.

At the last New Zealand Petroleum Conference my predecessor, the Hon Doug Kidd, noted that he proposed to change the emphasis of approach to the issue of petroleum exploration permits. He likened it to saying that "phase one" of the permitting system under the Minerals Programme for Petroleum was nearing completion, making way for "phase two".

"Phase one" saw Blocks Offers following the introduction of the Minerals Programme for Petroleum. "Phase two" allowed for emphasis to be placed on the Acceptable Frontier Offer system. The consequence of this was that apart from existing permits and licences all available acreage in New Zealand was and still is open for permitting via the Acceptable Frontier Offer (AFO) system.

To refresh your memory about the system, it provides the opportunity for explorers to submit bids over both onshore and offshore areas of their choice. It is a first come - first served permitting system. AFO applications may be made at any time, over any part of New Zealand that is currently available for exploration.

Importantly, the AFO allocation method allows an explorer who has the financial and technical resources the opportunity to readily obtain a permit and commence exploration activity within a short time-frame. Accordingly, the emphasis of the evaluation process for AFO applications is on the statement of the work proposed for the permit area and the applicant's financial and technical abilities.

Since the AFO system became fully operational as the main permitting mode a total of 26 permits, in addition to those granted via blocks offers, have been issued, importantly spread over seven basins. In addition a further five applications are being processed. Of major significance is the trend of increasing exploration outside the Taranaki region, into New Zealand's other petroleum provinces. So that today eight of the country's petroleum basins are currently being explored.

I will not pre-empt coverage later today of exploration, commercial and development highlights over the past two years, since the last Conference. However I believe a few comments are needed within the context of the increasing activity New Zealand is experiencing in several of its "basins of opportunity". In the past few weeks we have seen a number of exploration and development initiatives, importantly the commencement of further drilling onshore East Coast Basin. On this occasion it is not just one but a succession of wells which are scheduled to be drilled and I welcome this approach by the Westech Energy-Enerco partnership. I wish them well in their endeavours.

Also, as we speak the Rig Seismic is in New Zealand waters, collecting data in at least three basins.

While activities in the Taranaki Basin feature new oil discoveries and the enhanced extraction of a long known gas resource the pace of exploration and development is increasing and I like to believe we are on the threshold of further confirmation of New Zealand's petroleum potential in other of its "basins of opportunity".

I have previously said, the Government wishes to see further exploration activity in New Zealand. The increased activity evident today compared to that in train at the time of the previous Conference, is a step in the right direction. The Government wants further discoveries of petroleum, these will come only from the drilling of more wells.

In conclusion, I welcome you all here, particularly explorers from overseas. The Government welcomes your investment in the development of New Zealand's petroleum resources. I reiterate that the business environment for your exploration is amongst the best in the world and note that New Zealand's petroleum resource is significant to its economic health.

Whilst there is an increasing level of exploration activity in New Zealand, we always want more and with your investment in exploration New Zealand may well be on the threshold of making further petroleum discoveries. Discoveries New Zealand wants, and needs.

I wish you well in your exploration and development and I wish you an enjoyable Conference.