



## AIDE MEMOIRE

### Impacts of Block Offer options on jobs and industry

<b>Date:</b>	8 March 2018	<b>Priority:</b>	Urgent
<b>Security classification:</b>	In Confidence	<b>Tracking number:</b>	2440 17-18

<b>Information for Minister(s)</b>
Hon Dr Megan Woods Minister of Energy & Resources

<b>Contact for telephone discussion (if required)</b>			
Name	Position	Telephone	1st contact
James Stevenson-Wallace	General Manager, Energy and Resource Markets	04 474 2913	✓
s 9(2)(a)	Principal Policy Advisor, Resource Markets Policy	s 9(2)(a)	

<b>The following departments/agencies have been consulted</b>

Minister's office to complete:

- |   |  |
|---|--|
| <input type="checkbox"/> Approved             | <input type="checkbox"/> Declined            |
| <input type="checkbox"/> Noted                | <input type="checkbox"/> Needs change        |
| <input type="checkbox"/> Seen                 | <input type="checkbox"/> Overtaken by Events |
| <input type="checkbox"/> See Minister's Notes | <input type="checkbox"/> Withdrawn           |

Comments

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#### Purpose

To respond to a question from your office on the potential impact of Option 4 on jobs and industry compared to Option 3. These options were set out in the briefing titled *Petroleum allocation scenarios* (tracking number 2219 17-18 refers) and consist of:

- Option 3: 2018 Block Offer limited to Taranaki onshore and offshore; and
- Option 4: 2018 Block Offer limited to Taranaki onshore only, seek a high level review of how we approach offshore allocation in advance of a 2019 offshore offering.

s 9(2)(a)

James Stevenson-Wallace  
General Manager, Energy, Resources & Markets  
Building, Resources, and Markets, MBIE

8 / 3 / 18

#### Scope of offshore review a critical consideration

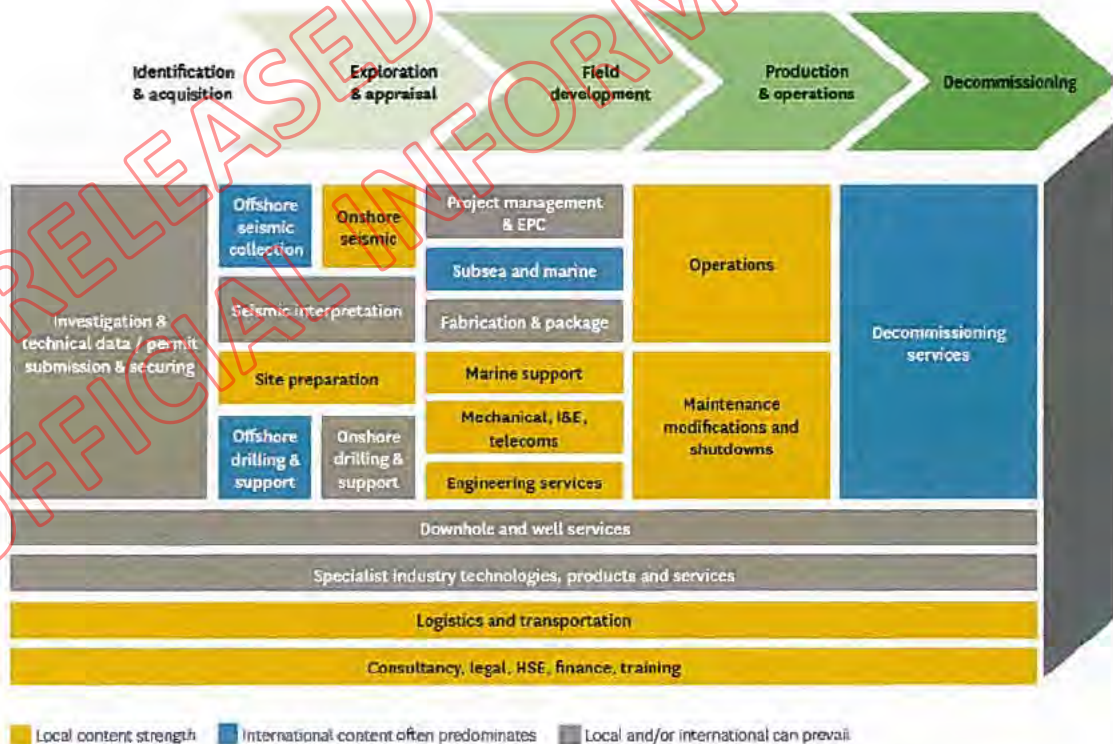
1. Option 4 sets out a process whereby only onshore Taranaki acreage would be offered in 2018 and includes a review of how the government allocates rights to explore offshore in advance of a 2019 offshore offering.
2. So long as industry is clear that there will be an offshore offering from 2019 which would at least include offshore Taranaki, then it is unlikely that there will be much impact on jobs or industry in the short-term.
3. If the scope of the review is poorly communicated or open-ended and includes the possibility that no offshore acreage will be offered in 2019 or later, then this will likely have a chilling effect on investment.
4. The immediate effects on employment are likely to be relatively small as there are relatively few employees involved in initial exploration efforts. Anecdotally, MBIE is aware of at least one field operator who is holding off making investments in the tens of millions of dollars until they get greater certainty from Government over the future of petroleum allocation.

- The effects increase significantly over time as the potential number of jobs and economic impacts magnify as you move from seismic collection and interpretation, through to drilling, field development and ongoing production operations.

## Overview of economic and employment contribution of oil and gas sector

- The economic contribution of the oil and gas sector is set out below and provides some context for the potential impacts of various petroleum permit allocation options going forward.
- Generally, the early stages of oil and gas activity will see significant portions of work go to offshore specialist firms. With the exception of onshore drilling rigs, there is insufficient activity to support the continuous presence of equipment in New Zealand, so most offshore exploration and appraisal work is undertaken by foreign contractors who bring specialist equipment for short-term campaigns. Local companies supplement this with generic tasks and provisioning or roles that require specific local knowledge, such as resource management, regulatory compliance or community consultation.
- Once decisions have been made to bring a field into production, the local content increases dramatically as New Zealand companies are more likely to participate in facility construction and ongoing operations and maintenance. An overview of the different stages of upstream oil and gas activities, the types of activities involved in each stage, and the areas where local content (shown in yellow) is particularly strong, is provided below.

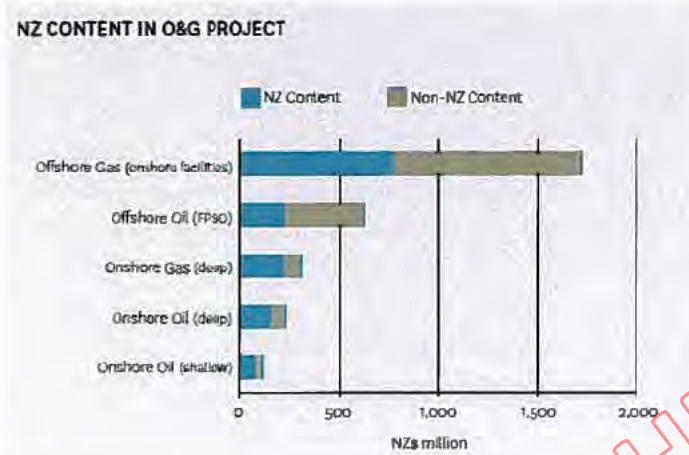
SUPPLY CHAIN INTERFACE AT KEY UPSTREAM STAGES



Source: Venture Taranaki, *The Wealth Beneath our Feet: The Next Steps*

- In terms of total expenditure, offshore oil and gas activities involve significantly greater costs than for onshore activities. MBIE is unable to undertake independent modelling of these costs in the time provided. However, Venture Taranaki provided the following estimates in

2014 based on discussions with oil and gas industry participants. This is set out in the graph below.



Source: Venture Taranaki, *The Wealth Beneath our Feet: The Next Steps*

- Based on a 2014 survey undertaken by Martin Jenkins on behalf of Venture Taranaki, the oil and gas industry directly employed 4,653 full time employees. Of these, 236 full time employees worked directly for exploration and production companies. Most jobs in the oil and gas sector are in the engineering or specialist and technical services sectors. With the fall in oil prices since mid-2014, there has been a fall in activity levels and it is likely that there will be fewer jobs in the sector today than what is shown in the table below. This is typical of the cyclical nature of the industry, with job levels likely to rise should there be a rise in oil prices in future.

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**TABLE 2: O&G INDUSTRY EMPLOYMENT IN TARANAKI AND NEW ZEALAND, 2014**

TYPE OF COMPANY	NO OF COMPANIES	TARANAKI EMPLOYMENT	NEW ZEALAND EMPLOYMENT
E&P companies	12	140	236
Logistics	18	264	446
Engineering/maintenance/ engineering consultancy/ I&E/civil engineering	59	1,427	1,736
Specialist & technical services	69	1,201	1,238
General suppliers of products/services	22	60	79
Professional and consultancy	55	159	208
Drilling company/well services	11	685	710
<b>Total</b>	<b>246</b>	<b>3,936</b>	<b>4,653</b>

Source: Marth Jenkins

Source: *Venture Taranaki, The Wealth Beneath our Feet: The Next Steps*

11. The total contribution to gross domestic product of the oil and gas sector in 2013 was modelled at \$1.7 billion. This increases to \$2.8 billion when added-value manufacturing that uses gas as a feedstock (e.g. Methanex (methanol), Ballance Agri-nutrients (fertiliser), AICA New Zealand (glue) and Contact Energy's combined and peaker plants (electricity)) are added). The Taranaki region benefits disproportionately from this economic contribution.
12. As with job estimates, the contribution of the oil and gas sector to gross domestic product is likely to have fallen since mid-2014 following the fall in oil prices and consequent fall in activity levels. The Taranaki region has been affected by this downturn, with the impact felt much more broadly than just the immediate oil and gas sector (e.g. reduced financial contributions for community groups, schools and the coast guard).

**TABLE 3: OIL AND NATURAL GAS SECTOR, ECONOMIC IMPACT ON TARANAKI REGION, 2013**

TARANAKI	DIRECT	DIRECT + INDIRECT	DIRECT + INDIRECT + INDUCED
Output (\$m)	1,509	2,164	2,301
GDP (\$m)	662	933	1,006
Employment (FTEs)*	3,936	4,718	5,941

**TABLE 4: OIL AND NATURAL GAS SECTOR, ECONOMIC IMPACT ON NEW ZEALAND, 2013**

TARANAKI	DIRECT	DIRECT + INDIRECT	DIRECT + INDIRECT + INDUCED
Output (\$m)	1,577	3,195	3,929
GDP (\$m)	685	1,378	1,742
Employment (FTEs)*	4,653	5,940	8,481

Source: Martin Jenkins. \*Note: For employment direct includes first round employment as well.

Source: Venture Taranaki, *The Wealth Beneath our Feet: The Next Steps*

13. If a decision is taken to limit new exploration to the Taranaki region only (whether it be onshore or offshore Taranaki) it curtails the opportunity to replicate aspects of Taranaki's service sector economy in other regions of New Zealand.
14. At different points in time, case studies have been undertaken on the potential economic impact of oil and gas developments in other parts of the country. In June 2017, Martin Jenkins released an economic impact assessment of the Barque Field Development<sup>1</sup>. Should the field be drilled and a commercial discovery be made, then two development scenarios were modelled. In one development scenario, the field would contribute \$141 million to GDP annually and 950 jobs on an ongoing basis, while in the other it would contribute \$269 million to GDP and 1,980 jobs on an ongoing basis.

<sup>1</sup> Martin Jenkins, *Barque Field Development Economic Impact Assessment: Final Report*, 9 June 2017, available at: <https://www.nzog.com/dmsdocument/333>.

15. In 2013 MBIE modelled a range of scenarios of oil and gas development on the East Coast of the North Island.<sup>2</sup> Under a “small-scale” scenario, the gross national disposable income of the East Coast region would grow \$160 million and 199 jobs would be created. This increased to \$1.4 billion and 1,163 jobs in a “large-scale” scenario.

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<sup>2</sup> Ministry of Business, Innovation & Employment, *East Coast Oil and Gas Development Study*, March 2013, available at: <http://www.mbie.govt.nz/info-services/sectors-industries/natural-resources/oil-and-gas/petroleum-expert-reports/east-coast-oil-and-gas-development-study/East-Coast-oil-gas-development-study-report.pdf>.