

## Irish Offshore Petroleum Industry – Myths and Facts

### **Irish Offshore Operator's Association**

No other industrial sector in Ireland has attracted such a “mythology” as the offshore petroleum exploration industry. This paper lists the principal myths surrounding the industry, and sets out briefly the factual position in each case.

#### **Urban Myth 1:**

*The oil companies are sitting on huge areas offshore Ireland where they know that there are vast resources and are waiting for the optimum time to declare and develop them.*

**Fact:** Only about 5% per cent of the Irish Offshore area is under licence at present. Licences are specifically structured to prevent companies sitting on acreage and are subject to the implementation of a phased exploration programme. Licences must be surrendered if they are not active or if the licensed exploration programme is not being implemented. This rule is rigidly enforced by the State. Thus, **ALL** of the licences awarded in both the 1995 and 1997 Licensing Rounds have been handed back to the State.

#### **Urban Myth 2:**

*Ireland's oil and gas fiscal terms are “the second most generous in the world”.*

*Why can't we be like Norway, which levies 78 % of profits?*

**Fact:** The above description of the Irish terms involves looking at one side of the equation only, while ignoring other factors such as the very low success rate of drilling.

**Fact:** The commercial success rate of exploratory drilling in Norway is about one in five. In Ireland so far, it is about one in 25.

**Fact:** If you drill a dry well in Norway, the Government will refund 78% of your costs, either by remission of tax, or if you are a new entrant having no taxable revenue, the Government will refund the money. Thus, only one fifth of your money is at risk. Multiply the two fives and on a rough basis and in simple terms, it is twenty-five times as attractive to drill offshore Norway as it is in Ireland, which is one of the reasons why there are so many companies active offshore Norway and so few offshore Ireland.

**Fact:** In addition to the above refund, Norwegian terms are in some respects more generous than those in Ireland. For instance, in Ireland, 100% of

capital cost can be written off. Norway allows a “capital uplift” of 30%, which means that 130% of capital cost can be written off against tax. Up to recently, Norwegian companies have been allowed to write off exploration losses incurred in other countries against Norwegian tax. This has never been allowed in Ireland.

**Fact:** Irish fiscal terms have been subject to expert review on behalf of the State in 2003 and 2008. Both reviews concluded that the Irish terms were broadly appropriate and were similar to the terms of other comparable regimes, e.g. offshore France and Spain. The latter review, by Indecon, suggested an increase in taxation in the case of the most profitable fields, which has been implemented.

### **Urban Myth 3:**

*The offshore oil industry does not employ Irish people.*

**Fact:** The large numbers employed by both Shell and Kinsale Energy, the vast majority of whom are Irish, amply rebut this proposition. Ireland is very well represented in the offshore industry worldwide, at all levels and in every specialisation. Exploration offshore Ireland is currently low level, sporadic and temporary in nature. If exploration intensifies and further development projects ensue, local employment will multiply, exactly as it has done on the back of development projects in Norway and in the UK.

In addition, Irish contractors have benefited significantly from involvement with the offshore industry. Some examples include:

### **PM Group**

PM Group was founded in Ireland in 1973, with three employees. The company won its first major energy project with Marathon Petroleum in 1976, to provide project and construction management services on the Kinsale Head Gasfield Development. The Kinsale Head project is acknowledged by the founders of the company to have been a significant launching pad, and the experience gained was important in supporting the development of the Group.

Today PM Group employs 1,600 people world-wide, delivering complex capital projects to clients in over 30 countries in the biopharmaceuticals, advanced manufacturing, medical technologies, food and nutritionals, energy, research and development, transportation, healthcare, education, environmental and commercial sectors.

### **Roadbridge**

Roadbridge, an Irish family-owned construction business employing around 2000 people in Ireland, was founded in 1967 and was one of the major local contractors on the Corrib project, and also constructed the Bord Gáis Mayo-Galway gas pipeline.

The Company is emphatic about the benefits of having worked with an oil major on Corrib in terms of the processes learned, up-skilling of staff and the approach to safety. The experience gained from being a successful contractor to a major international oil company has “opened the door” for Roadbridge and has enabled them to land a contract with Total in Scotland and a major contract in Australia, also in the energy sector.

### **Sinbad Marine Services**

Sinbad Marine Services was established in Killybegs in 1978 to service the international fishing fleets working off the west coast of Ireland. Given the company's agency and logistics experience, the company started servicing seismic/survey vessels and in 1999 established "Killybegs Supply Base" which is now the primary supply base on the west coast servicing all the E&P companies operating in the area such as Shell, Statoil, Serica, Eni and Lundin as well as pipe lay, subsea and survey operations. Many of Sinbad's subcontractors e.g. stevedoring, crane hire, waste, transport companies, etc. have also successfully expanded their scope to include supply to the offshore industry. Due to experience gained in the offshore industry, particularly in terms of HSEQ, Sinbad is now in a position to compete for similar work on the international stage.

### **Mainport Holdings**

Mainport Holdings was founded by Finbar Ronayne in 1954 as a ship agency company in Cork. The company became involved with the offshore industry in 1974, providing base support management services to license-holders exploring in the Celtic Sea. In 1979 Mainport was awarded a contract by Marathon to provide supply-boat and standby-boat services to the Kinsale Head Platforms, and in that year bought its first vessel. Today, Mainport is an international integrated marine service company, with a fleet of 24 vessels, having operations in the Ireland, the UK, Norway, South Africa, West Africa, Brazil and the Caspian Sea. New offices have recently been opened in Angola and Singapore. In recent years, the company has specialized in seismic survey support operations and is currently adding to its fleet three new-build seismic support vessels, which will operate worldwide.

#### **Urban Myth 4:**

*Exploration companies conceal information from the State in the hope of getting a better deal*

**Fact:** All information and data acquired offshore is made available to the State agencies in real time and is constantly under review by Departmental technical staff and consultants. This has been confirmed time after time by successive Ministers. Better deals for individual discoveries cannot be negotiated. The terms under which a licence is issued are set out beforehand, much like income tax.

#### **Urban Myth 5:**

*No tax will be paid by companies producing offshore because they can write off losses previously incurred.*

**Fact:** In Ireland, exploration costs can be carried forward against tax for 25 years. This provision is not unusual and in some regimes such costs can be carried forward indefinitely. Over the past 25 years, companies exploring offshore Ireland have spent in the region of €1.5 bn. drilling some 42 exploration wells. A DECNR study shows that a **single** major oil field off the west coast would pay, in its life time, some €16 bn. in taxes. Thus, even if a single company could claim the entire expenditure, which is plainly not possible (IOOA has ten members, and many others have left the Irish offshore), significant tax would be payable as a result of just one major discovery.

#### **Urban Myth 6:**

*In the '80's, a 'questionable' deal was done with the industry to remove royalties and lower taxes.*

**Fact:** The UK removed royalties on new production in 1982. Norway removed royalties on new production in 1985. Ireland did likewise in 1987, followed by the Netherlands and Denmark. Royalties have now virtually disappeared in NWE for the very good reason that, as a levy on production rather than a tax on profits, royalties are disproportionately penal on high risk, low profitability projects. The changes to the Irish fiscal regime were actually made in response to a virtual halt in exploration, as can clearly be seen by the steep decline at the time in both the number of licenses and the number of exploration wells. This was confirmed by officials of the Department of Communications, Energy and Natural Resources in a recent appearance before the Oireachtas Joint Committee on Communications, Natural Resources and Agriculture.

**Urban Myth 7:**

*Small companies make huge amounts of money selling their licences to bigger companies.*

**Fact:** Small companies who identify a promising prospect, but who do not have the money to appraise it fully, or to develop it, may “farm in” a partner who assumes a large part of the costs of the project in return for a share of the licence. Such transactions are commonplace in the industry and are subject to the approval of the Minister.

**Urban Myth 8:**

*Ireland is regarded by the industry as a prolific area for exploration and a “fat goose”, waiting to be plucked!*

**Fact:** Ireland is barely on the radar for the international industry. One example from our next-door-neighbour will suffice. The UK 27<sup>th</sup> Licensing Round late last year resulted in the award of 167 new licences. A previous UK Round attracted 350 applications. The most recent Irish round attracted 13 applications for Licensing Options, and in fairness, a large proportion of these are reportedly being converted into Frontier Exploration Licences

However, If Ireland was regarded by the industry as a “fat goose”, we would be seeing numbers of applications for licences comparable to those in the UK. We are far from that position.

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