

30 January 2013

David Binnie
General Manager
New Zealand Petroleum & Minerals
PO Box 1473
Wellington 6140
New Zealand

Dear David,

Block Offer 2013: Submission from Dunedin City Council

Dunedin City Council appreciates the opportunity to submit on the proposed Block Offer 2013, and welcomes the inclusion of local councils with blocks in, or adjacent to, their jurisdictions in the consultation process.

Local government has the purpose of meeting the current and future needs of communities, and keeping this firmly in mind this submission from the Dunedin City Council discusses the following:

1. Importance of engaging with the public on the Block Offers going forward
2. Need for localised community benefits to be explored in more detail
3. Risk and disaster management in view of outstanding natural environment
4. Climate change adaptation costs not included in cost-benefit analysis

1. Importance of engaging with the public on the Block Offers

- 1.1. The Dunedin City Council is pleased with the Government's decision to consult with councils that either: have a proposed block in their area of jurisdictional control; or, have a proposed offshore block that abuts the coast within 100 km of their jurisdictional area. The Dunedin City Council recognises that by undertaking to include councils in their consultation to inform the final decisions for Block Offer 2013, New Zealand Petroleum & Minerals is going above and beyond their mandatory consultation with iwi.
- 1.2. It is clear that this is a far stronger approach to community consultation than in previous years, and before the Block Offer process was initiated. However, the Dunedin City Council suggests that whilst this is a good beginning, the Government needs to continue to refine its approach to consultation and to support the engagement of a wide range of stakeholders on the Block Offers.
- 1.3. The Dunedin City Council has worked this year with New Zealand Petroleum & Minerals to offer insight into local government processes and the timing of the Block Offer consultation, for example ensuring that the consultation process does not include the Christmas and New Year period when staff availability and the ability to engage the local community is limited. The Dunedin City Council believes that the consultation process on next year's Block Offer will be further improved to ensure councils are able to engage with their communities in advance of making a submission, and to ensure that all community concerns are identified and addressed. The Dunedin City Council requests that New Zealand Petroleum and Minerals conducts full public consultation on subsequent Block Offers going forward.
- 1.4. Once permits are awarded, the Dunedin City Council suggests that the Government require successful companies to demonstrate that they are engaging with the

community and iwi on a regular basis (quarterly at minimum). This is considered to be of particular importance if the current Review of the Crown Minerals Act leads to a change in the exploration permit duration from the existing five-year period to between ten-15 years.

2. Need for localised community benefits to be explored in more detail

- 1.1. In the documentation received by the Dunedin City Council from New Zealand Petroleum and Minerals it is stated that the economic outcomes will be decided competitively by the market and this is undoubtedly true as a result of the New Zealand Government choosing not to put in place any conditions around where companies should base any critical infrastructure or procure goods and services. However, the Government has also suggested that regional and local benefits may include job creation and training, community investment, and infrastructure development, dependent, of course, on the outcomes of exploration.
- 1.2. The Dunedin City Council finds it difficult to take a position on the potential benefits to the community as there is currently not enough detailed analysis of these benefits, and of any economic disadvantages at the local level. Examples of disadvantages include: the cost to local ratepayers of providing any needed infrastructure or infrastructure upgrades required by the exploration companies or resulting from disaster management requirements; the impact of visible offshore exploration infrastructure on tourism and quality of life.
- 1.3. To address this information gap, the Dunedin City Council urges the Government to consider requiring companies applying for the block permits to be more specific on the anticipated community benefits of exploration. Companies could be asked to supply details regarding the economic and other benefits for local communities nearest to their exploration area, for example the number and type of jobs that will be accessible to local people and New Zealand nationals and the products/services that will be sought from local companies. It would be acceptable if this information is estimated, and draws upon a company's experiences and statistics from similar exploration elsewhere in the world.
- 1.4. Further, and related to local benefits, whilst the Dunedin City Council accepts royalty and tax revenues will fund national programmes that benefit the local level, the local area takes on many of the costs and risks associated with oil and gas exploration but is not then guaranteed any direct benefits. The Dunedin City Council wishes to suggest the Government investigate the possibility of some proportion of proceeds being allocated to the local authorities nearest the drill sites (currently, all revenue goes to Central Government). There are two infrastructure costs that such a local royalty might go some way toward meeting:
 - Costs in providing facilitative infrastructure or infrastructure upgrades – For example, roads may need to be upgraded to enable exploration to take place.
 - Environmental safety and disaster mitigation and management infrastructure costs – For example, from conversations with petroleum companies operating near to Dunedin at present, it appears that the nearest some emergency equipment is located is Singapore and that Dunedin's airport is currently not big enough for the aircraft that would bring it to Dunedin. This would obviously mean a delay in responding to any disaster and the Dunedin City Council is concerned about how costs based on infrastructure upgrades like this will be met.
- 1.5. The Dunedin City Council has strong relationships with Dunedin's tertiary institutions, the University of Otago and the Otago Polytechnic. The Dunedin City Council would like to see the Government taking steps, such as those taken by the Norwegian government when it was developing its oil sector¹, to ensure that knowledge transfer and collaboration between the tertiary sector and successful extraction companies supports high value-added, high-tech research and enterprise.

¹ *The Regional Dynamics of Innovation: A Comparative Study of Oil and Gas Industry Development in Stavanger and Aberdeen*, Hatakenaka, S., Westnes, P., Gjelsvik, M. and Lester, R., International Journal of Innovation and Regional Development, **3**, p. 305 (2011) <http://inderscience.metapress.com/content/U6WP6R5T24403202>

- 1.6. The Dunedin City Council has concerns about the potential impact on New Zealand's exchange rate and the competitiveness of other export sectors. The Dunedin City Council would support measures to manage these impacts through the establishment of an investment fund of some kind to ensure that petroleum revenues do not have an adverse effect on export sectors critical to the Dunedin and New Zealand economy, as has been done by some countries that receive significant petroleum revenue.

2. Risk and disaster management in view of outstanding natural environment

- 2.1. Dunedin is proud, and rightly protective, of its natural environments and their community value. This includes a coastline comprised of sandy beaches and marine wildlife of significant scientific and conservation interest at the global level, such as the only mainland breeding colony of Royal albatross in the world and several endangered species that are endemic to the area. The Dunedin City Council is concerned about any possibility of damage to these ecosystems, which contribute to the local economy, as a result of oil and gas development.
- 2.2. The Dunedin City Council understands the blow-out risk for the proposed exploration is assessed by New Zealand Petroleum & Minerals as low. However, the Dunedin City Council has concerns that the risk modelling currently used to determine this risk, which is based on historical data, may not fully take into account: the shift toward exploration and extraction in more hazardous areas that have previously not been considered viable; or, the increased value the public is placing upon the protection of the natural environment. The Dunedin City Council understands that the New Zealand Petroleum & Minerals team is exploring how to refine risk modelling and looks forward to seeing these improvements made before Block Offer 2014. The Dunedin City Council would like to see more specific risk information for gas exploration as the majority of the data and information presented by New Zealand Petroleum & Minerals in this Block Offer is for oil although it is believed that it is likely to be gas rather than oil in the Great South Basin.
- 2.3. Whilst it seems that blow-out risk is well-defined, other risks, such as the impact of exploration activities on the foraging of endangered hoiho/Yellow-eyed Penguins or on the whakahao/Hooker's Sea Lion that have only recently re-established the only South Island breeding grounds on the Otago Peninsula (1994), are not addressed in any great detail. The Dunedin City Council would like to see more information on other risks in future Block Offer information packs.
- 2.4. The Dunedin City Council speaks regularly with those companies that already hold exploration permits in areas offshore from the city. From these interactions, it is clear that key stakeholders within the community view favourably where the company can demonstrate that its health, safety and environment assessments and guidelines surpass those required by New Zealand legislation.
- 2.5. The Dunedin City Council suggests to the Government that it should put in place a disaster management plan, with the necessary emergency response equipment within easy reach and key national, regional and local contacts identified and aware of their roles should a disaster take place. It was suggested by New Zealand Petroleum & Minerals that this would happen if there were to be a disaster but the Dunedin City Council suggests that this should be done in advance, in the same manner as civil defence emergency response preparedness. Dunedin has a large number of active local groups and expertise in wildlife protection and conservation, and the Dunedin City Council suggests that it would be useful for New Zealand Petroleum & Minerals to establish links with these groups and academics in advance of exploration taking place. The Dunedin City Council also suggests that a disaster-recovery fund is established from oil and gas revenue.
- 2.6. The Dunedin City Council understands that the Ministry of Transport is conducting a review to raise the level of liability insurance for the petroleum industry above the current NZ\$30m. The Dunedin City Council is concerned that even if this happens, there may still be a considerable shortfall if a disaster were to occur bearing in mind that BP has estimated the total bill for Deepwater Horizon, including fines, at over US\$42 billion.
- 2.7. The Dunedin City Council is pleased that the environmental and health and safety risk and management aspects of the Block Offer tenders are being assessed by the

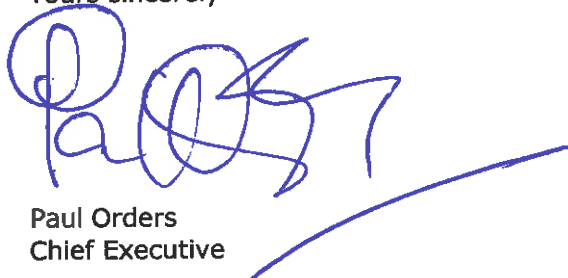
Department of Labour and the Environmental Protection Agency rather than by New Zealand Petroleum and Minerals.

3. Climate change adaptation costs not included in cost-benefit analysis

- 3.1. The New Zealand Government recognises that human activity is increasing the natural level of greenhouse gases in the atmosphere causing Earth to warm up and the climate to change. The Government notes that effects of a warming planet and disrupted climate pattern are already becoming evident, and that looking out over the next 30-40 years, the effects of climate change, and the response to it, presents a major national and global challenge².
- 3.2. The Dunedin City Council is concerned that oil and gas sector development and associated climate change consequences, is being evaluated in isolation from the current and projected climate change adaptation and mitigation costs that face local communities in New Zealand. The costs of climate change adaptation, first outlined in financial terms in the 2006 Stern Review³, do not appear to have been factored in to any of the cost-benefit analysis that has taken place.
- 3.3. The climate change adaptation work that is currently underway in many of New Zealand's local and regional councils is a cost currently shouldered by the ratepayer. Whilst ratepayers do use and benefit from oil and gas, the climate change adaptation and mitigation costs are not factored in to the calculation of the royalties extraction companies are required to pay. This means that externalities such as climate change impacts, the impacts that affect New Zealand citizens, are currently not accounted for. Without further analysis, the Dunedin City Council and the Government cannot know whether the total revenue generated by developing the oil and gas sector significantly exceeds adaptation cost in the long-term.
- 3.4. The Dunedin City Council suggests:
 - this analysis be carried out;
 - the link between oil and gas development and climate change impacts is spelt out in future Block Offer documentation; and,
 - that the Government consider establishing a ring-fenced fund from oil and gas revenue to support efforts to adapt to, and mitigate, climate change that can be accessed by the local councils whose communities face challenging impacts.

The Dunedin City Council is happy to further discuss our submission with New Zealand Petroleum & Minerals if required, and looks forward to working with New Zealand Petroleum & Minerals to continue to strengthen engagement with the community on the development of the oil and gas sector over the coming years.

Yours sincerely



Paul Orders
Chief Executive

² Ministry for the Environment 'climate change impacts in New Zealand'
<http://www.mfe.govt.nz/issues/climate/about/impacts.html>

³ The Stern Review on the Economics of Climate Change
http://webarchive.nationalarchives.gov.uk/+http://www.hm-treasury.gov.uk/sternreview_index.htm