

30 October 2015

Josh Adams
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New Zealand Petroleum and Minerals
Ministry of Business, Innovation and Employment
Blockoffer2016@mbie.govt.nz

Dear Mr Adams

Block Offer 2016: Submission from the Dunedin City Council

Dunedin City Council appreciates the opportunity to submit on Block Offer 2016.

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

- Engaging with the public on Block Offers
- Community feedback on Block Offer 2016
- Climate change impacts and adaptation costs
- Potential risks to Dunedin's natural environment
- Understanding the economic and community benefits.

Block Offer 2013 was the first to include the Great South Basin and the Dunedin City Council has made a submission each year since then. Given the public's strong views on oil and gas exploration and extraction off the Otago coastline, the Dunedin City Council has invited community feedback each year, which formed the basis of the submissions.

1. Engaging with the public on Block Offers

- 1.1. The Dunedin City Council remains concerned that consultation on Block Offers remains confined to iwi, hapū and affected local authorities that either have a proposed block in their area of jurisdictional control; or, have a proposed offshore block that abuts the coast within 100km of their jurisdictional area.
- 1.2. While the Dunedin City Council understands that the scope of consultation is defined in the Crown Minerals Act 1991, we again suggest that engagement is broadened to allow a wide range of stakeholders to respond to Block Offers earlier rather than later in the process. The Dunedin City Council requests that New Zealand Petroleum and Minerals (NZPAM) conducts formal, full public consultation on subsequent Block Offers.
- 1.3. While applicants for marine consents are required to identify existing interest holders (including iwi authorities and fisheries interests), the Dunedin City Council submits, as

it did last year, that the process should require that applications for marine consent are publically notified by the Environmental Protection Agency.

- 1.4. The Dunedin City Council reiterates that companies awarded permits should be required to engage fully with iwi and the community every six months at a minimum, in addition to the required annual engagement report to NZPAM.

Community feedback on Block Offer 2016

- 1.5. The Dunedin City Council made the information on the Block Offer 2016 available to the Dunedin community on the Dunedin City Council website and sought community input from 16 September to 7 October 2015.
- 1.6. Feedback was received from 364 members of the public and is attached as two appendices to this submission. In general, 355 members of the public were opposed to oil and gas exploration and extraction, eight were supportive, and one neutral. This compares with last year's feedback of 41 opposed, and 11 in favour.
- 1.7. The Dunedin City Council also received a petition from Oil Free Otago with 422 signatures opposing petroleum exploration, which is attached as an appendix to this submission.
- 1.8. ProGas Otago submits its 5,247 Facebook "likes" indicate support for off-shore exploration in the Great South and Canterbury basin.
- 1.9. The issues the Dunedin community specifically raised on Block Offer 2016, in order of frequency, are:

In opposition:

- the climate change impacts of oil and gas use (39)
- environmental risk and limited disaster response (38)
- the lack of evidence supporting local economic benefits (17)
- that New Zealand should focus on renewable energy sources rather than oil and gas (14)
- the economic risks and costs (both short- and long-term), including local risk and local infrastructure requirements in the absence of local royalties (13)
- the damage of petroleum and gas exploration to New Zealand's 'clean, green' brand and image (8)
- whether petroleum exploration and development reflects New Zealand's innovative nature (6)
- the risk to and potential impacts on local and New Zealand tourism (5)
- the unlikelihood of the local workforce being able to take advantage of any oil and gas employment opportunities (2)
- concern around loss of local control over large multi-national companies operating in, or near to, Dunedin (2)
- the potential risks to Dunedin residents' quality of life (2)
- the potential impacts on Dunedin residents' social well-being (2).

In favour:

- petroleum exploration and development will deliver employment opportunities (9)
- the need for employment in Dunedin (5)
- the risk of a disaster is low (2)
- New Zealand's transport fuel needs (1).

2. Climate change impacts and adaptation costs

- 2.1. The Government recognises that human activity is increasing the natural level of greenhouse gases in the atmosphere causing the Earth to warm up and the climate to change. The Government notes that effects of a warming planet and disrupted climate patterns are already evident, and that looking out over the next 30 to 40 years, the effects of climate change, and the response to it, presents a major national and global challenge.¹
- 2.2. Over 50 responses to DCC's request for feedback on Block Offer 2016 explicitly cited climate change impacts as a reason to discontinue oil and gas exploration and extraction and to invest in alternative energy sources.
- 2.3. The costs of climate change adaptation by many local and regional councils are shouldered by the ratepayer. While ratepayers do use and benefit from oil and gas, the climate change adaptation and mitigation costs are not factored into the calculation of the royalties that extraction companies are required to pay. This means that externalities such as climate change impacts – impacts that affect New Zealand citizens – are not accounted for.
- 2.4. The cumulative use of fossil fuels will result in a direct cost to the Council and the residents of Dunedin to adapt to the effects of climate change. This reaffirms the Council's proposal that a proportion of royalties from oil and gas extraction be returned to local authorities to use in disaster mitigation and climate change adaptation and mitigation.
- 2.5. The Dunedin City Council proposes that:
 - climate change effects be taken into account in cost-benefit analyses of petroleum exploration and extraction;
 - the link between oil and gas development and climate change impacts is spelled out in Block Offer documentation; and
 - the Government considers 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.

3. Potential risks to Dunedin's natural environment

- 3.1. The Dunedin City Council has drafted an Environment Strategy in consultation with Kāi Tahu with the proposed vision that "we treasure our healthy natural environments and unique ecosystems through active guardianship for current future generations". The Dunedin community is proud and protective of the region's natural environments and their community and ecological value. This includes a coastline comprised of sandy beaches and marine wildlife of significant scientific and conservation interest at a global level, such as the only mainland breeding colony in the world of Royal Albatross, and several endangered species that are endemic to the area. Around 50 submissions expressed concerns about the potential risks to Dunedin's natural environment of oil and gas exploration and extraction, while two submissions considered the risk of a disaster to be low.

¹ Ministry for the Environment 'Climate change impacts in New Zealand'
<http://www.mfe.govt.nz/issues/climate/about/impacts.html>

3.2. The gross annual turnover of enterprises directly involved in viewing wildlife on the Otago Peninsula alone is \$6.5million annually and employs 70 full time equivalents.² The Dunedin City Council is concerned about the possibility of damage to these ecosystems and the local economy as a result of oil and gas exploration and extraction.

3.3. Again, there is insufficient data for the Dunedin City Council to balance the risk of environmental damage in relation to the benefits that a local oil industry would bring to the region. Dunedin City Council understands from NZPAM that the blowout risk for the proposed exploration is assessed as low, but remains concerned that the modelling 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 been considered unviable; and
- the increased value the public is placing on the protection of the natural environment.³

The Dunedin City Council notes that further risk modelling has been undertaken, and that the revised modelling will include gas condensates as well as oil. The Dunedin City Council looks forward to the opportunity to respond to the discussion document when it is available.

3.4. Other risks – such as the impact of exploration activities on the Royal Albatross breeding colony, the endangered hōiho (yellow-eyed penguins), or on the whakahao (Hooker's Sea Lion) that has re-established the only South Island breeding grounds on the Otago Peninsula – are still not addressed in any detail. The Dunedin City Council is concerned that the Block Offer information pack does not include the impact of exploration activities and/or blowout on these and the region's other taoka species, or the process through which these impacts will be identified and mitigated against.

3.5. The Dunedin City Council communicates regularly with companies that already hold exploration permits in the city's offshore areas. From these interactions, it is clear that community stakeholders take a favourable view where the company demonstrates that its health, safety and environment assessments and guidelines surpass those required by New Zealand legislation.

3.6. The Dunedin City Council suggests that the Government put in place a disaster management plan to include:

- the necessary emergency response equipment within easy reach; and
- national, regional and local contacts who are aware of their roles in the event of a disaster.

NZPAM has advised that this would happen in the event of a disaster, but the Dunedin City Council proposes that the plan is completed in advance, in the same manner as civil defence emergency response preparedness. Dunedin has active local groups and expertise in wildlife protection and conservation, and suggests that NZPAM establish links with these groups and with academics before exploration takes place. The Dunedin City Council also suggests that a disaster-recovery fund is

² Tisdell, C (2007) "The Economic Importance of Wildlife Conservation on the Otago Peninsula – 20 Years On"

³ This point is supported by the Dunedin City Council's recent public consultation on Te Ao Tūroa, Dunedin's draft Environment Strategy during which a number of submissions raised concerns about the impact of offshore drilling on the natural environment

established from oil and gas revenue along with a firm commitment from the Government that no clean-up costs will be borne by Dunedin ratepayers. The Dunedin City Council looks forward to receiving an update on the outcome of the Ministry of Transport's review.

3.7. The Dunedin City Council understands that the Department of Labour and the Environmental Protection Agency have independently assessed the environmental and health and safety risks and management aspects of the Block Offer tenders. The Dunedin City Council requests an update from these agencies on their independent reviews.

3.8. The Dunedin City Council also understands that the financial assurance regime for offshore installations is currently under review, and looks forward to the opportunity to comment on options early next year.

4. Understanding the economic and community benefits

4.1. The Dunedin City Council notes that in response to last year's submission, NZPAM stated that "it is important to acknowledge that significant benefits from oil and gas activities are [...] generated at a regional level". However, it is difficult to quantify precise benefits to the Dunedin community without more detailed analysis.

4.2. Around 40 submissions expressed concerns about a lack of evidence to support economic and community benefits to the region and/or the potential infrastructure costs in the absence of local royalties. A total of 14 responses supported the view that the oil and gas industry could potentially deliver employment opportunities.

4.3. To date, Dunedin has only seen seismic ships in its harbour and 'chaser boats' supplying both seismic ships and one test drill ship. Some businesses have gained revenue from these visits.

4.4. The information on potential economic benefits provided in response to the Dunedin City Council's 2015 submission was taken from a 2015 Venture Taranaki report. It is difficult to infer from that report the benefits to the Otago regional economy and social wellbeing as the data specifically relates to Taranaki.

4.5. It should be noted that there is no information available on potential economic disadvantages at the local level, such as:

- the cost to local ratepayers of providing any infrastructure or infrastructure upgrades required by the exploration companies, or resulting from disaster management requirements; and
- the impact of visible offshore exploration infrastructure on tourism and quality of life.

4.6. To address this information gap, the Dunedin City Council proposes that the Government requires 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 available to local people and New Zealand nationals, and the products and services that local companies will be expected to provide. The Dunedin City Council accepts that this information may need to be estimated, and drawn from a company's experiences and statistics from similar operations elsewhere in the world.

4.7. While the Dunedin City Council accepts that royalty and tax revenues will fund national programmes that might benefit the Dunedin region, the local area takes on

many of the costs and risks associated with oil and gas exploration but is not guaranteed any direct benefits. Again, the Dunedin City Council proposes that the Government considers the allocation of a proportion of proceeds to the local authorities nearest the drill sites. Local royalties would fund costly infrastructure upgrades, benefitting both the oil industry and the region, including:

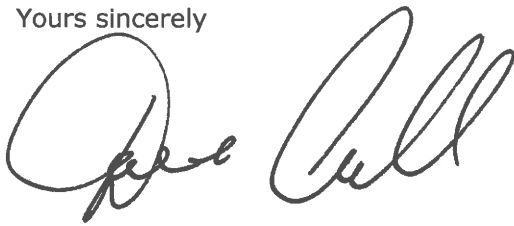
- Costs in providing facilitative infrastructure or infrastructure upgrades; for example, roads that may need to be upgraded to enable exploration to take place; and
- Environmental safety and disaster mitigation and management infrastructure costs; for example, Dunedin airport is not big enough for the aircraft that would bring emergency equipment to Dunedin. This would delay a disaster response unless the airport is upgraded.

4.8. 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 developed its oil sector⁴, to ensure that knowledge transfer and collaboration between the tertiary sector and successful extraction companies supports high value-added, high-tech research and enterprise.

4.9. 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 an investment fund 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.

The Dunedin City Council is happy to discuss this submission with NZPAM and looks forward to working with NZPAM to strengthen engagement with the community about any future exploration and development of the oil and gas sector.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Dave Cull', with a large, stylized 'D' and 'C'.

Dave Cull
Mayor of Dunedin

⁴ *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>