NATURAL RESOURCES POLICY

SUMMARY

** **Take all oil and gas resources into public ownership**. People Before Profit will nullify all existing agreements with oil companies and place a moratorium on all licensing rounds until the new model of state management has been introduced.*

**** Introduce a new model of hydrocarbon management**. This will be premised upon **(a) public ownership of resources, (b) stronger state participation** through production sharing and service contracts, and a national oil company, and **(c) higher rates of financial returns** through increased rates of corporate tax and royalties.*

**** Develop and fund an integrated industrial development strategy comprising upstream and downstream activities.** Public ownership of our natural resources will become the cornerstone of a new development strategy that will replace a reliance on foreign multi-nationals.*

** **Use funds and infrastructure from oil and gas activities to diversify Ireland's energy supply.** People Before Profit favours developing and moving towards more sustainable forms of energy production which would have additional industrial, economic, social, and environmental benefits.*

** People Before Profit will design and implement a new system of consultation and planning for hydrocarbon activities based on the active engagement of all stakeholders. All exploration, production, and processing activities will be subjected to transparent, fair, and participative permissions processes involving community participation in decision making. Hydrocarbon activities will only be authorised when there is community consent.*

People Before Profit's Natural Resources Policy

Irish Gas And Oil

Gas, oil, wave, wind, and solar energy are some of the astounding natural resources available in Ireland. These and other natural resources could be the key to Ireland's economic regeneration, providing sustainable growth within the island. Current estimates of the size of Irish gas and oil resources[1] can be derived from a range of sources, including details released by individual companies. For example, Providence disclosed estimates of 870 million barrels of oil off the Dublin coast while Finavera suggested a potential 9.4 trillion cubic feet of gas (1.5 billion barrels of oil equivalent (bboe)) existed in the onshore Lough Allen gas field.

The Department of Communications, Energy, and Natural Resources (DCENR) has been tight-lipped on the overall value of Irish hydrocarbons. However, a 2010 press release announcing the opening of the Atlantic Margin Licensing round provided clues to the possible value of Ireland's resources. According to the DCENR, potential reserves of 10 billion bboe (gas or oil) could be found in the Atlantic Margin, west of Ireland. This figure only relates to the West Coast and provides no insights into the wealth gained from over thirty years of gas production off the Cork coast (Kinsale, Ballycotton, and Sevenheads), or the probable riches contained onshore and offshore Ireland's East Coast.

The value of such resources clearly depends on the costs of recovering the hydrocarbons and the amount which can be commercially recovered. In addition, fluctuating oil prices make estimates of hydrocarbon potential challenging – oil prices in October 2015 had dropped dramatically to $46 dollars a barrel, compared with a high of $146 a barrel in 2008. Nevertheless, a possible value of around $460 million for resources located in Ireland's Atlantic Margin makes Irish hydrocarbons a tasty morsel for oil companies who know that the finite nature of oil resources mean prices will rise again.

Oil price increases will be accompanied by growing interest in Irish gas and oil and it's crucial that wealth from Ireland's natural resources be used for the benefit of people living in the country.

An Answer To Ireland's Economic Crisis?

Irish hydrocarbons could be used to resolve many of Ireland's economic and social problems, if there is a fundamental change in policy. Unfortunately, Ireland's current regime means the country sees little benefit from its own resources.

In a 2007 state sponsored report, Indecon Economic Consultants pointed out that 'the current fiscal system…yields among the lowest government take in the world'. Public outrage over the Corrib gas controversy and Ireland's very low tax regime forced Fianna Fáil Minister Noel Dempsey to initiate Indecon's review of the Irish regime, culminating in the 2007 Licensing Terms introduced by his successor Eamon Ryan (Green Party).

Indecon's report was one of three state-sponsored reviews held between 2006 and 2013 and each appraisal recognised that the existing 1992 licensing terms were too generous. The 1992 terms mean that companies only have to pay some nominal fees and a 25% tax on profits, after costs accrued over a 25 year period have been offset. These extremely generous terms are applied to all licences granted

1 *People Before Profit's Environmental Policy discusses renewable energies in more detail*

between 1992 and 1 January 2007, resulting in limited benefits for citizens from their gas and oil. The disastrous Corrib gas project reveals how in some cases the state receives little or no revenue from Irish gas as Shell, its partners, and other companies can offset all costs associated with the project's delays before they pay any tax.

The main difference between the 1992 and 2007 terms is a Profit Resource Rent Tax (PRRT) - an additional tax rate of between 5 to 15%, applied on a graded basis using a profit ratio of after-tax profits divided by the level of capital investment. As the PRRT only applies to highly profitable fields, revenues from licences granted after 2007 remain far below international rates.

Social and political resistance in tandem with growing recognition of the uniqueness of Ireland's regime prompted subsequent reviews within the state system: in 2011-12 the Joint Oireachtas Committee for Communications, Natural Resources, and Agriculture conducted a widespread review involving numerous stakeholders; and in 2013 Pat Rabbitte (Labour), Former Minister for Communications, Energy, and Natural Resources hired Wood Mackenzie to conduct another review.

After a lengthy process involving presentations from a wide range of individuals and groups, the Joint Oireachtas Committee on Communications, Natural Resources and Agriculture (JCCNRA) published a report containing 11 recommendations. The Committee recommended that the state increase the PRRT to ensure a minimum tax take for the state of 40%, rising to 80% in the case of very large finds – double the rate established in the 2007 terms.

The JCCNRA report also advised the Minister for Communications, Energy and Natural Resources to establish different review processes and consultation fora. Despite the cross-party consensus contained within the JCCNRA report, Pat Rabbitte largely ignored its recommendations and instead hired industry consultants Wood Mackenzie to conduct another review.

Following engagement with many of the same people who contributed to the JCCNRA report, Wood Mackenzie published its report in 2014 which advised the state to keep its licensing regime and replace the Profit Resource Rent Tax (introduced in 2007), with a new Petroleum Production Tax (PPT), calculated on a field-by-field basis. Combining PPT and corporate tax, profitable fields could result in a government share of a maximum rate of 55%, compared with a maximum rate of 80% suggested in the JCCNRA review. These new tax rates were included the 2015 Finance Act and are only applicable to authorisations granted after 2014.

The 2014 revisions mean newer authorisations could result in government take more in line with international rates yet the state did not resolve the fundamental issue at the heart of its licensing regime – the transfer of control and ownership of Irish resources to private oil companies in exchange for mediocre returns.

Ireland Compared With Other Countries

A 2007 report by the US Government Accountability Office showed that Ireland had the second lowest rate of government take among 142 fiscal systems. Of the fiscal systems studied, 108 had government take of 50% or over – twice the rate applied to many active authorisations in Ireland.

Another international study by petroleum consultant Daniel Johnston (2008) examined 45 fiscal systems with Ireland having the lowest rate of government take – half the rate of countries with a similar economic approach such as the US, UK, Canada and Australia. 24 of the countries studied used production sharing or service contracts, ensuring strong state control and ownership. Aside from

Ireland, only 6 fiscal systems resulted in government take of less than 50% and 22 fiscal systems resulted in government take of 70% or higher. 12 of those countries received government take of over 80% and 3 demanded a share of over 90%.

To assist the JCCNRA's deliberations on Ireland's licensing regime, the Oireachtas Library and Research Service compiled a research paper for the committee and presented findings from a 2007 report by the House of Commons Scottish Affairs Committee which showed Ireland had 'the most generous tax and royalty regime.' 65 countries were cited in the report and more than half the countries (36) received over 70% profits from gas and oil production in their countries.

Considering the international trend is for states to receive the largest share of the pie, why does the Irish tax regime remain stubbornly low? Despite evidence to suggest tax rates of over 70% are standard, alongside the JCCNRA recommendation to raise the tax rate to 80% in large finds, why did Pat Rabbitte and his successors refuse to significantly increase Ireland's tax rates for oil and gas exploitation?

One possible answer to that question is the connections between the Petroleum Affairs Division and the oil industry which influences Ministerial decisions and the direction state policy takes. Attention to another country also uncovers answers to such questions as it helps reveal the impact of neoliberal ideology on how Irish gas and oil is managed.

Our close neighbour Norway, with its comparable socio-economic transition from an agricultural to industrialised country, receives a government take that is over three times the Irish rate[2]. This is because it imposes a 78 per cent take rate. The Norwegian state also participates directly in exploration and production through its 67 per cent share in the major oil company Statoil and its 'State Direct Financial Interest' (SDFI). Managed by the state owned company Petoro, the SDFI means the state retains a direct financial interest in production with the amount of state participation decided upon the awarding of licences. Once the state's level of participation has been agreed, which differs between fields, the state behaves like other companies meeting its share of costs and receiving the equivalent share of profits.

In 2014, the Norwegian state received around €33.5 billion in revenues from petroleum activities, accounting for 27 percent of the Norwegian government's total revenues. Revenues from petroleum activities are allocated to the Government Pension Fund Global which had holdings worth more than €688 billion in 2014. This fund is used to accrue revenue for future generations of Norwegians to ensure lasting benefits for society and it reflects the state's views on its resources which are seen to belong to everyone.

Unlike Ireland, Norway's approach to gas and oil management has consistently been underpinned by a view that oil and gas belongs to all citizens. From the 1970s the Norwegian state refused to privatise its resources and insisted that the state would receive maximum benefits from taxation, state participation through Statoil, and obligations to land resources in the country. In Ireland, successive Fianna Fáil, Fine Gael, and Labour governments did not recognise the potential value of Irish gas and oil and instead focused on making Ireland as attractive as possible to multinational companies – to our detriment.

Oil and gas are different to other resources and production and trade of these resources brings massive profits to those who control the hydrocarbons. Many governments recognise the importance of ensuring strong control and some states receive government take in excess of 90% (Venezuela, Iran, Libya).

2 *On licences granted up to 2007.*

Rates of government take are not the only way a state can benefit from its resources and numerous countries are re-asserting control over their resources in other ways. In 2010, for example, the Ecuadorian President Rafael Correa introduced a new oil law which saw the state seize control of all the country's oil resources. International oil companies were told they would be compensated for their investments and production. Correa threatened to expropriate the assets of foreign companies which did not agree to the new contracts, informing them that 'companies need to understand that they should be governed by the rules of the game the country puts in place.' This global pattern shows why an urgent change of policy is required in Ireland.

Energy Security

Defenders of the current approach suggest that Ireland must provide 'simple and extremely attractive' terms in order to attract companies to develop its resources. They also assert that Ireland is vulnerable in terms of energy security because we import all of our oil and most of our gas.

In 2013, fossil fuels accounted for 91% of all energy used in Ireland yet the share of oil (47%) and gas (29%) has declined in recent years as renewable energies increased to account for 6.8% of energy consumed in Ireland. As the country moves towards more sustainable forms of energy production, arguments that Ireland must produce its gas and oil become weaker, particularly as companies the state seeks to attract are not obliged to sell Irish gas and oil back to the country. If companies decide to sell Irish hydrocarbons to Ireland, which they may do as transportation costs will be cheaper, those resources are sold at full market prices.

This means that in addition to receiving one of the lowest rates of government take in the world, the Irish state is not even guaranteed a supply of its own gas or oil. Instead the state must pay full market prices and compete with others for supply.

These issues are especially concerning when one considers oil companies' desire to produce gas in onshore areas such as Leitrim, Roscommon, and Clare using hydraulic fracturing ('fracking'). Banned in several countries and American states due to the environmental destruction it can bring, 'fracking' is a damaging production method to which many communities are opposed. No community should be forced to accept hydrocarbon production and processing facilities in their area without their consent and when those activities entail serious environmental, health, safety, and social risks. The Irish state and oil companies must learn from the Corrib gas conflict and prohibit projects against which there is widespread opposition.

Ireland's approach to the management of its gas and oil is problematic on many levels. However, there are many alternative options available to Ireland and if we choose to continue hydrocarbon production, there are a number of steps we can take to ensure Irish gas and oil will benefit our country.

Steps To Ensure Irish Gas And Oil Benefits The Country:

1. **Take all oil and gas resources into public ownership**. People Before Profit will nullify all existing agreements with oil companies and place a moratorium on all licensing rounds until the new model of state management has been introduced.

2. **Introduce a new model of hydrocarbon management**. This will be premised upon **(a) public ownership of resources**, **(b) stronger state participation** through production sharing and service contracts, and a national oil company, and (**c) higher rates of financial returns** through increased rates of corporate tax and royalties.

   The state will retain ownership of Irish gas and oil and will engage with oil companies through production sharing contracts or service contracts where this is necessary to access technical expertise. Alongside the state maintaining control over Irish gas and oil, such contractual arrangements will see the state having a direct financial interest in all production. The new Irish National Oil Company (INOC), run through a participatory management structure, will be a key component of this new approach and other oil companies will be required to co-produce with the INOC until it has developed the necessary expertise and financial capabilities to produce independently.

   The new fiscal system will include higher rates of taxation and royalties. These revenues, alongside profits from the INOC will be used to fund public services including education, health, childcare, community services, and social welfare. Public ownership will also guarantee security of supply and provide greater financial benefits for the overall economy.

3. **Develop and fund an integrated industrial development strategy comprising upstream and downstream activities**. Public ownership of our natural resources will become the cornerstone of a new development strategy that will replace a reliance on foreign multi-nationals. Such a strategy could include:
   - Training and upskilling workers for the range of exploration, development, production, refining and transportation activities and ancillary services.
   - Related research and development programmes.
   - Supporting new and existing services industries.
   - Development of a new state run refinery with refined petroleum products used for: transportation fuels; fuels for heating; fuels for power generation; feedstock for chemicals and plastics; and components for lubricants.

4. **Use funds and infrastructure from oil and gas activities to diversify Ireland's energy supply.** People Before Profit favours developing and moving towards more sustainable forms of energy production which would have additional industrial, economic, social, and environmental benefits.

   Such benefits include increased employment, reduced carbon dioxide emissions and increased energy security. Ireland has a wide range of renewable energy sources including wind, wave and tidal sources, and solar and geothermal energy which can be utilised productively. The wealth generated from public ownership of natural resources will make this diversification possible.

5. **Design and implement a new system of consultation and planning for hydrocarbon activities.** The Corrib gas debacle revealed many inconsistencies and flaws in the Irish planning system and illustrated how powerful groups can progress their interests with the state's backing, despite widespread opposition.

   People Before Profit will design and implement a new system of consultation and planning for hydrocarbon activities based on the active engagement of all stakeholders. All exploration, production, and processing activities will be subjected to transparent, fair, and participative permissions processes involving community participation in decision making. Hydrocarbon activities will only be authorised when there is community consent.