

Agenda-driven policy advice: the real story behind the petroleum exploration ban OIA documents

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New Zealand Petroleum and Minerals (NZPaM) is a division of the Ministry of Business, Innovation and Employment (MBIE) charged with promoting and facilitating oil and gas exploration and production in New Zealand. Under the Crown Minerals Act, oil and gas deposits are Crown assets and the agency is the Crown's investment arm. NZPaM is also charged with providing objective policy advice, monitoring, and managing compliance by the very industry it's supposed to be promoting. It is an incongruous arrangement – one that occasionally results in the agency's promotional agenda overriding its arms-length policy, administrative and monitoring functions as illustrated by the OIA documents on the Government's petroleum exploration ban.

Executive Summary

OIA documents on the offshore petroleum exploration ban released in June reveal MBIE officials knew as early as last February the government was contemplating a 'permanent moratorium' that would threaten the oil and gas industry's viability. **They set about defending industry and trying to dissuade Minister Woods from declaring a ban through a series of agenda-driven policy briefings.**

Although the Prime Minister had declared a goal of zero carbon emissions by 2050 and ending reliance on fossil fuels, officials talked up the industry's benefits and maintained that an exploration ban would be 'contrary to Government policy objectives'. As a consequence, the Minister for Energy and Resources, the Prime Minister and other ministers **received inadequate, misleading and occasionally biased advice from MBIE officials.**

Critics of the government have portrayed MBIE officials as being 'kept in the dark' or surprised at the last minute when they 'found out' Minister Woods was planning to ban new offshore oil and gas exploration.

Analysis of the documents (see full report) shows **as early as 27 February** officials presented seven options to the Minister for the 2018 Block Offer **including a temporary and a permanent moratorium on exploration.** The Minister approved work on two options, both of which restricted exploration to Taranaki and could potentially have ended offshore exploration.

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Over subsequent weeks, the OIA documents indicate MBIE officials forwarded a series of emails and briefing papers to the Minister and the PM's officials that:

- incorporated petroleum industry promotional language and examples of speculative 'game-changing' projects
- conveyed suspect 'facts' from privately-commissioned studies about the industry's safety, employment and economic benefits
- presented perfunctory, sometimes contradictory arguments against an exploration ban
- used spin from an environmental consultancy firm employed by oil companies to provide 'talking points' for the Minister about the safety of fracking, and
- uncritically repeated industry claims about increased gas use benefitting the climate, in spite of climate science findings to the contrary.

This was not the sort of **objective, evidence-based policy advice Ministers would have expected or found useful** in attempting to implement the Government's objectives around climate change and phasing out reliance on fossil fuels.

Introduction

On April 12, Prime Minister Jacinda Ardern announced a ban on new offshore oil and gas exploration. The same day, Minister for Energy and Resources Dr Megan Woods announced the 2018 Block offer onshore Taranaki and the beginning of consultation with iwi and local authorities. On 5 June, in response to petroleum industry push-back and accusations by the National opposition that the Government's new policy was ill-considered and ignored advice from experienced public officials, Minister Woods released thirteen Official Information (OIA) documents and an email trail about the policy decision.² According to the Minister:



"the Cabinet decision was the culmination of exhaustive consultation between the Coalition partners and senior Ministers which started in December 2017 immediately after the announcement of that year's block offer. Despite the fact it was an oral item, there was more discussion than most items with written papers."

**Megan Woods, Minister
of Energy & Resources**

The story revealed by the OIA documents suggests it was not quite the rigorous consultation process described by the Minister. But it was also a process at times characterised by slipshod analysis and slanted policy advice from officials, some of whom had extensive experience and close personal contacts within the petroleum industry.

² Beehive New Zealand, Ministerial releases, 5 June 2018 <https://www.beehive.govt.nz/feature/block-offer-2018-release-information>

The tale of the OIA documents begins in February when Minister Woods received the initial draft of a briefing paper from MBIE officials on options for the 2018 Block Offer, customarily announced at the New Zealand Petroleum Conference. She also had at least two important meetings that month that had bearing on the eventual form of the exploration ban.

Tuesday, 20 February

A meeting with Minister Shaw this evening was obviously important for coordinating the development of energy policy with climate change policy. It's worth bearing in mind that Woods had already largely accepted the petroleum industry's claims that natural gas was a necessary 'transition fuel' to a clean energy economy. She had received an unsolicited 'briefing paper' from the Petroleum Exploration and Production Association of New Zealand (PEPANZ) shortly after the coalition Government assumed the Treasury benches. So it's perhaps not surprising that in preparation for the meeting, the Minister asked her Private Secretary (Energy and Resources) to obtain information from MBIE officials on the country's current gas reserves and how long these were likely to last.

The two ministers agreed to exchange letters before the meeting, stating their positions and priorities regarding the future of fossil fuels and climate change policy. The email trail indicates Woods emailed her letter to Shaw's office on the evening of 19 February and planned to hand him a hard copy at the meeting. There is no record of her letter in the OIA documents released by her office. Shaw's office sent his letter to Woods the night before, and it is in the OIA records. In part, Shaw stated

"The simple fact is that all coal, oil and gas that has been discovered cannot be burnt [sic] if globally we are to meet our Paris Agreement commitments to limit global warming to 1.5 to 2 degrees...Searching for more fossil fuels does not aide transition, it delays it...I urge you to end the Block Offer process for allocating petroleum and minerals permits immediately."

Unfortunately, if any notes of the meeting between the two ministers were kept they were not included in the OIA record released by Minister Woods' officials.

Wednesday, 28 February

Minister Woods' private secretary received an email around February 20th from NZOG's External Relations Manager John Pagani ³ seeking a meeting between the Minister and Eyat Ofer, Chairman of Ofer Global whose petroleum subsidiary OGOG took over NZOG in late 2017. No doubt the minister's office would have checked with MBIE officials before replying to Mr Pagani's email, though this advice was not included in the OIA record. Under normal circumstances, Ofer's visit would have attracted at least some media attention as would a visit from the head of BP or ExxonMobil. His presence in the country went almost completely under the radar. Neither Minister Woods' office nor NZOG appear to have been interested in publicising Ofer's visit.

³ Previously a public affairs consultant and parliamentary public relations advisor for the Labour Party.



**Eyat Ofer, Chairman,
Ofer Global**

Pagani would no doubt have been known to the Minister or at least senior parliamentary staff. He had been a parliamentary Labour Party communications advisor before setting up his own consultancy in Auckland. So when the Minister's private secretary received his email, she invited Pagani to send some bullet points covering what the company wanted to discuss with the Minister. MBIE officials received a copy of Pagani's bullet points and provided briefing notes to the Minister for the meeting. Whichever official compiled the tranche

of OIA documents chose not to include that advice in the public release. Neither were the minutes, if any, from the meeting so Pagani's bullet points are all we have to go on.

According to Pagani, NZOG was mainly interested in giving the Minister (who was also MP for Wigram) a chance to meet Mr Ofer and hear about the company's broad intentions regarding their exploration permits off the Canterbury coast. They specifically wanted to discuss development of the Barque gas prospect in the Pegasus field and the potential benefits for the South Island and New Zealand. No doubt they brought with them a copy of the economic impact assessment of the Barque project that the company had commissioned from consultancy firm Martin Jenkins. NZOG had arranged co-funding for the study from NZ Trade and Enterprise (under questionable circumstances, according to emails under a separate OIA request). It was accepted by NZTE and spun in the local media as a regional economic development 'report' promising transformation of the South Canterbury region. In reality it was little more than a sales prospectus to impress the public and attract joint venture partners to invest in drilling an exploratory well.⁴ NZOG had been struggling for more than a year to secure a farm-in partner, and had had to ask for an extension to their 'drill or drop' deadline from NZPaM.

Pagani and PEPANZ had gone to considerable lengths to generate media interest in the supposed economic and employment benefits of the Barque project, and these were listed among the bullet points for discussion with the Minister. Ofer and Pagani (according to Pagani's bullet points) wanted to know what the Minister thought of the Barque project, particularly in light of the government's intentions to make New Zealand carbon neutral by 2050. There is no record of the Minister's reaction to NZOG's plans in the OIA documents. However, MBIE officials later inserted the example of the 'transformative' Barque prospect into backgrounders on the industry to the Prime Minister and other ministers.

Meeting with officials on petroleum allocation options for Block Offer 2018

The Minister's meeting with NZOG representatives was preceded by what turned out to be a pivotal meeting with MBIE officials to discuss a briefing paper from James Stephenson-Wallace, General Manager, Resource Markets Policy and Dr Marcos Pelenur, Manager, Resource Markets Policy entitled '*Petroleum allocation scenarios*' (27 Feb 2018).

⁴ See Loomis, Terrence 2017. 'Distinguishing the Snake Oil from the Good Oil regarding NZOG's 'game-changing' Barque field.' http://www.terrenceloomis.ac.nz/uploads/5/3/3/3/5333337/opinion-loomis_snake_oil_from_real_oil.pdf

According to the purpose statement, the paper presented options for “continuation of the Block Offer process.” Officials would have been keenly aware of the new Government’s stance regarding climate change and the need to phase out fossil fuels. Ms Ardern had made the point strongly during the election campaign in her much publicised ‘nuclear free moment’ speech in August 2017. As Prime Minister, she told TV3’s *The Nation* fossil fuels were not New Zealand's future, and future block offers would be reviewed.⁵ Given mounting media debate over reliance on fossil fuels and protest action by environmentalists, there was clearly a possibility the new Government might decide to ban further exploration altogether.

So officials set the context early in the paper for why such a ban would be a bad idea. Paragraphs 14-15 warned that attracting overseas investment and eventually having a company drill a well could take five years or more:

“Should growth opportunities through exploration be removed [i.e. a ban], it may incentivise [companies] to either sell their producing assets or not to invest further in extending their productive life.” That would mean the Crown would have to bear some of the decommissioning costs earlier than planned.⁶

In the following section (paras 16-22) titled ‘Offshore dynamic,’ MBIE officials noted that multi-client prospecting companies (like Schlumberger with their *Amazon Warrior*) spend a lot of money doing seismic surveying around New Zealand and expect the areas they survey to be included in future block offers so they could on-sell their data to exploration companies. A “sudden change in approach (e.g. an exploration ban and/or cancelling the block offer process) may create risk of a legal challenge on the basis of legitimate expectations held by affected parties.” Officials were quick to assure the Minister they thought the risk was low.⁷

In a section on ‘Scenario of a successful exploration find’ (paras 26-28), MBIE officials warned that holders of existing permits had come to use the block offer process as a means of acquiring additional acreage “to extend the productive life of their assets”. Presumably this was meant as another warning to the Minister that these companies might be forced to wind up their operations early and leave if there were no more block offers.

The remainder of the paper set out options for the 2018 Block Offer, noting points for and against in a way that clearly favoured continued oil and gas exploration and production. The options are briefly summarised below:

⁵ ‘No more petroleum block offers?’ *Newshub*, 21 October 2017.

⁶ This was a rather fatuous threat. The Crown (taxpayer) would have had to pay a share of the costs anyway under existing legislation.

⁷ So if there was minimal risk, why even raise it other than as an implied warning against a ban on exploration.

- Option 1: No decision
- Option 2: Onshore and offshore block offer, similar acreage to 2017
- Option 3: Block offer onshore and offshore Taranaki only
- Option 4: Block offer limited to onshore Taranaki, review offshore allocation process
- Option 5: Defer block offer to 2019, review and refine the block offer process
- Option 6: Temporary moratorium until adoption of a new allocation model
- Option 7: Permanent moratorium on all types of petroleum permits

Two of the options contemplated a temporary or permanent moratorium on allocating permits for exploration and production, but officials gave them little credence. **Option 6** (a temporary moratorium) would buy time for a review of the allocation process, but it would “impact on investment certainty” for multi-client survey firms and exploration companies. The delay could mean New Zealand (i.e. oil and gas companies) would not be able to profit from an upswing in commodity prices. **Option 7** (a permanent moratorium) would provide “investor certainty”⁸ but create a risk to security of supply, put upward pressure on gas prices, create overseas perceptions of sovereign risk, accelerate decommissioning costs, “alter” regional employment opportunities, and pose a risk of legal challenges from investors (i.e. oil and gas companies).

According to officials, **Option 3** and **Option 4** had the fewest drawbacks. Both underscored the importance of ongoing exploration and production to ensure the country’s future energy security. Option 3 would limit Block Offer 2018 to offshore and onshore Taranaki. Option 4 would limit the block offer to Taranaki onshore only and “seek high level review of how we approach offshore allocation in advance of a 2019 offshore offering.” Whichever option the Minister chose, officials emphasised the important role of continued gas exploration (e.g. paragraph 47 and Annex 5). They were clearly basing this advice on the ‘gas bridge’ model championed by the oil and gas industry, which had received widespread criticism in international climate change research and analysis.⁹

Concluding their analysis, the MBIE officials recommended Option 3. It had the fewest drawbacks (at least according to the officials) and:

“seeks to address the current uncertainty in the market [presumably created by ministerial statements in the media about transitioning to clean energy] by confirming commitment by Government to honour existing investment in exploration permits in the Pegasus Basin and Great South Basin [i.e. suggesting implied support by the Minister from her meeting with NZOG executives]. The upcoming drilling commitments for 2018/19 will be pivotal to the development of those basins and will inform the likely level of economic reward in the area [i.e. jobs and growth for South Canterbury]” (para 42).

⁸ A cynically ironic comment, since under Option 7 there would BE no investors.

⁹ For a summary of this research and analysis, see Fossil Fuels Aotearoa Research Network, 2018. ‘Why Natural Gas isn’t a Bridge Fuel to a Low Emissions Economy.’ A research report, May. http://www.terrenceloomis.ac.nz/uploads/5/3/3/3/5333337/ffarn_paper_-_gas_not_a_transition_fuel_v.2.pdf

Emails between officials after the allocation options meeting with Woods indicate a tentative decision had been made to bring a paper to Cabinet on the 2018 Block Offer on 26 March in time for the Minister to make an announcement at the New Zealand Petroleum Conference. Woods' private secretary suggested that in drafting the paper, MBIE officials should "assume Option 3 and prepare to change quickly if required" [presumably to some version of Option 4].

After the meeting, the Minister asked for a summary of block offers awarded since the allocation process began in 2012 as well as information about Methanex's operations and its economic benefits to the Taranaki region. Methanex uses approximately 46% of the country's gas supply to produce methanol for urea as well as for sale on the international market. The value of Methanex's contribution to GDP was no doubt one of the points officials made during their meeting with the Minister in favour of continued exploration. A few days later, Woods asked for a comparison of the impacts of Options 3 and 4 on jobs and the industry. An aide memoire from New Zealand Petroleum and Minerals' General Manager James Stevenson-Wallace, titled *Impacts of block offer options on jobs and industry*, was forwarded to Woods' office on 9 March. A preliminary draft of the proposed Cabinet paper on Block Offer 2018 covering Options 3 and 4 was sent to the Minister on 14 March.

Wednesday, 14 March

Ardern and Peters meeting

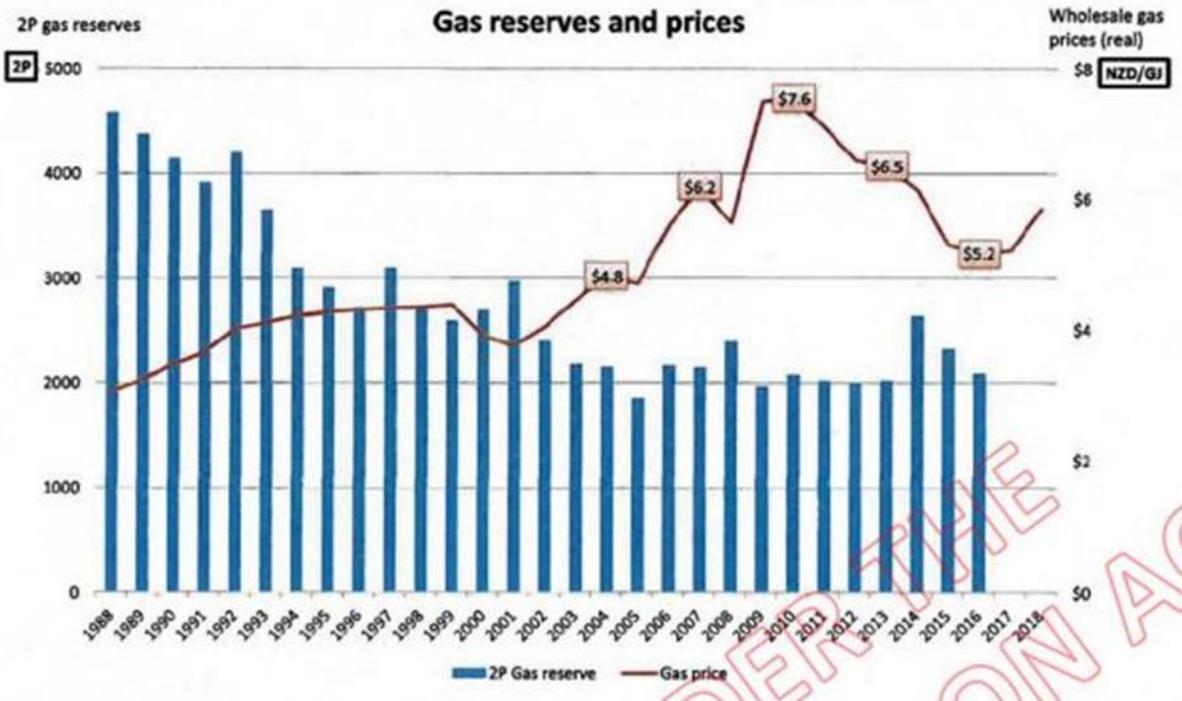


The Prime Minister's Chief of Staff, Mick Munro, emailed Woods' private secretary on March 12th requesting a background aide memoire on the oil and gas sector for the PM's upcoming meeting with Deputy Prime Minister Winston Peters. Information such as the number of wells, GDP contributions, employment data, number of permits and how long they would last. In passing he added "Obviously production would continue for some years **even if exploration was to end tomorrow.**" An exploration ban was obviously being discussed in the PM's office by this time.

The backgrounder for the meeting, titled '*Overview of the NZ Oil and Gas Sector (14 March)*', was forwarded the previous afternoon by MBIE's Manager, Resources Markets Policy. It contained the information Munro had requested but added a few of 'embellishments' to underscore the importance of the oil and gas industry to Taranaki and the national economy. A section on petroleum reserves was titled 'Petroleum Reserves and Security of Supply'. It noted that all New Zealand's gas supply came from local fields and there were only 10-12 years of reserves left. The paper warned of rising gas prices if changes were made to the permit allocation system (i.e. if exploration were banned). The paper's author claimed "there is a direct correlation between gas reserves and gas prices....Decreasing gas reserves will result in higher gas

prices for all gas consumers.” This advice was highly misleading. A chart was included (Figure 1) claiming to show that prices had risen as reserves fell between 1988 and 2018. Actually the chart showed little correlation between estimated reserves and prices. Embarrassingly, the analysis had failed to take account of demand, which declined after 2008 no doubt as a result of the global financial crisis and competition among domestic suppliers.¹⁰

Figure 1



Some of the paper’s embellishments seem to have borrowed from media releases, website information and/or reports by PEPANZ and Venture Taranaki. Oil and gas industry employment estimates are a case in point. PEPANZ claimed in an unsolicited ‘briefing’ to Minister Woods following the election that the industry employed 11,000 people. PEPANZ’s CEO Cameron Madgwick used the figure frequently in media releases and opinion pieces to counter calls by environmentalists for phasing out the industry. The Prime Minister’s



Cameron Madgwick, PEPANZ CEO

office, according to the OIA emails, indicated they had been using this figure in public statements but wanted to be sure the figure was accurate.

¹⁰ E.g. *Interest.co*, 21 June 2018. ‘OMV tells the Commerce Commission depleting gas reserves at the fields it’s proposing to buy from Shell will constrain the growth of its market share.’ <https://www.interest.co.nz/business/94413/omv-tells-commerce-commission-depleting-gas-reserves-fields-its-proposing-buy-shell>

A few days later, officials in the PM’s office emailed MBIE officials asking (on behalf of the PM no doubt) where the figure of 11,000 came from and were more recent figures available. MBIE officials replied the figure came from PEPANZ and included petrochemical jobs. The PM and Minister Woods were clearly concerned to obtain reliable figures for discussions about the impacts of an exploration ban and planning for a just transition.

For an ‘independent’ analysis MBIE officials turned to a report that Venture Taranaki had contracted from consulting firm Martin Jenkins (MJ) and released in 2015¹¹. Based on that report, MBIE officials advised that the industry directly employed 4653 people nationally and that the “full employment contribution is approximately 5941 full time employees in the Taranaki region”. A footnote (easy to overlook in light of its significance) cautioned that given the downturn in oil prices since mid-2014, “it is likely there will be fewer jobs in the sector today than was estimated by Martin Jenkins.” So less than 11,000 were employed by the industry, but how many? Let’s look more closely at how MJ came up with their figures.

Since Statistics NZ doesn’t distinguish petroleum industry employment within the category ‘Mining,’ the consultants were forced to use databases compiled by PEPANZ and Energy Stream (a Venture Taranaki website) of companies who voluntarily associated themselves with the industry. These were fairly subjective data sets, so MJ also used “a combination of surveys, telephone interviews, publically available information, and best estimates”. They provided no further explanation of their data gathering procedures in their report, inviting the old social research adage ‘junk in, junk out’.

In 2014 when MJ compiled their report, there were only 256 people working for oil and gas companies around New Zealand. The consultants needed to come up with a figure for their client that showed that lots of people were ‘employed by’ the industry. So they began with an estimate of *direct* jobs (those employed in all aspects of oil and gas operations), and then extrapolated from there to *indirect* jobs (those employed in supplying the inputs to oil and gas operations), and then calculated *induced* jobs using what they assumed were appropriate ratios (those employed to provide goods and services to meet consumption demands of directly and indirectly employed workers like hospitality staff). Then they took a bigger leap and added ‘feedstock’ employment (industries like Methanex and Fonterra that used natural gas in their production). This stretched credibility but they eventually arrived at over 11,000 people.¹²

A revision of Martin Jenkins’ categories might have helped clarify the actual employment situation, particularly if we distinguish ‘core’ and ‘ancillary’ jobs in the petroleum industry (Figure 2).

¹¹ Martin Jenkins, 2015. *The Wealth Beneath our Feet: Next Steps*. Published by Venture Taranaki.

¹² This methodology has been criticised by some economists, particularly if it is not based on up to date input/output tables and accepted multipliers, or alternatively a “well-designed local survey”. Cf. Bacon, Robert and Masami Kojima, 2011. ‘Issues in estimating the employment generated by energy sector activities’. Sustainable Energy Department, World Bank, June, Washington, DC

Figure 2

New Zealand O&G employment in 2014: clarifying Martin Jenkins' data

	<i>Taranaki</i>	<i>Rest of NZ</i>	<i>Total</i>
<u>Core O&G work</u>			
E&P companies	140	96	236
Drilling & well services 685	25	710	
Logistics	264	182	446
Specialist/technical services	1201	37	1238
Sub-total	2290	340	2630
<u>Ancillary services</u>			
Engineering maintenance	1427	309	1736
Professional/consultancy	159	49	208
Gen'l supplies & services	60	19	79
Sub-total	1646	377	2023
Total 'Direct'	3936	717	4653
Total 'Indirect'	782	1287	2069
Total 'Induced'	1223	2541	3764
Total	5941	4545	10,486

From a policy perspective, if the issue is about estimating *economic benefits* then in 2014 approximately 6722 jobs were generated by the petroleum industry broadly defined. But if it's a question of estimating the costs of '*just transition*,' then 2630 people employed in core activities are likely to require retraining and help finding alternative employment. Businesses employing 4092 people in ancillary and indirect jobs generated by servicing the petroleum industry could need help in revising their business plans and marketing their services to other industries and customers. Prime Minister Ardern and Deputy PM Peters may well have discussed both issues. If so, a more careful analysis of the employment data by MBIE officials would certainly have helped.

In the same background, MBIE officials took the opportunity to bolster the case for continuing government support for the industry by adding a section in the paper titled 'Potential economic impacts of oil and gas discovery' (para 38-40). They highlighted two 'case studies' of the huge potential benefits from government continuing to encourage expansion of the industry. The first, not surprisingly given Minister Woods' meeting with NZOG executives a fortnight earlier, was NZOG's Barque prospect off the coast of South Canterbury (see above). The second was MBIE's 2013 *East Coast Oil & Gas Development* study, which the previous Minister of Energy and Resources Simon Bridges had used to sell the idea of petroleum development on the East Coast and answer activist groups' concerns about fracking.¹³

Monday, March 19

Officials meeting with Minister Woods

In preparation for another meeting today between Woods and MBIE officials about the 2018 Block Offer, on March 14 MBIE's Manager, Resource Markets Policy had forwarded a briefing paper to the Minister's

¹³ See Loomis, Terrence, 2017. *Petroleum Development and Environmental Conflict in Aotearoa New Zealand*. Lexington Books, Lanham, Maryland. Pp 164-169.

office featuring a modified version of Option 4. The paper focused primarily on identifying the proposed blocks for iwi and local council consultation. The Minister's private secretary indicated Woods would consider the draft paper over the weekend and have comments at the upcoming meeting next Monday.

Monday 19 March turned out to be an eventful day. At lunchtime, Prime Minister Ardern – flanked by Minister Woods and Minister Shaw – met environmental activists on the steps of Parliament and accepted a 45,000 signature petition calling for an end to oil and gas exploration. Ms Ardern stated her Government was “actively considering” the issue of ending petroleum exploration and reviewing the block offer process.¹⁴ PEPANZ Chief Executive Cameron Madgwick said while Ardern's statements suggested no decision had been made, they did appear to point to the direction the Government was going.

At Wood's meeting with officials that afternoon, the briefing paper '*Block Offer 2018 – Proposed blocks for consensus*' was discussed, along with a backgrounder on the NZ Petroleum Conference. The paper sought the Minister's agreement on the new blocks for consultation with iwi and local authorities, and attached a draft paper for Cabinet to consider on 26 March. The Cabinet draft indicated that at the Minister's direction the blocks on offer would be limited to onshore Taranaki. The issue of offshore oil and gas exploration would be referred to the Interim Climate Change Committee (ICCC) and no offshore blocks would be offered until the ICCC had provided advice to Government. This would have temporarily shelved the controversial issue, and placed the Minister in the position of being able to either accept or reject the Committee's independent advice rather than relying solely on MBIE officials.

Woods' handwritten notes on her copy of the paper indicate she agreed to the proposed blocks (subject to identification of any conservation land affected) and commencement of consultation, but the draft Cabinet paper attached by officials had been “overtaken by events”. The PM's public pronouncement a couple of hours earlier about reviewing future exploration was obviously one of those. Regarding the ICCC recommendation, the Minister had earlier authorised her private secretary and MBIE officials to ask Minister Shaw's officials whether their minister might agree to revising the terms of reference of the Interim Climate Change Committee in Shaw's upcoming Cabinet paper to allow the ICCC to consider the impact of future petroleum exploration on New Zealand's emissions goals. Shaw's officials informed MBIE officials that their minister was concerned this would significantly expand the ICCC's scope and workload, so the idea was dropped. Woods' wrote on the briefing paper that this too had been “overtaken by events.” The issue of offshore exploration would have to be dealt with another way.

Following the meeting, the Manager, Resource Markets Policy and Principal Policy Advisor were tasked with reporting back to the Minister's office on 'pressure points' in the schedule to get Cabinet sign off on the 2018 Block Offer portion of the paper as an Additional Item on the agenda. Later in the day, MBIE's Manager Commercial, Analysis & Investment sent two alternative timelines for a revised Cabinet paper: one would see the paper signed off prior to the Petroleum Conference and the other a month later. Either way, MBIE officials assured the Ministers' office they were ready with maps, documents and a list of

¹⁴ ‘Ardern says Government 'actively considering' call to end oil exploration.’ *Stuff* news, 19 March 2018.

stakeholders to launch the consultation process immediately after the announcement of the onshore Taranaki blocks.

Meanwhile, the Prime Minister's office requested an overview of the 'comms plan' for the 2018 Block Offer release. MBIE officials forwarded an outline of the plan, based on the 2017 Block Offer process. The plan included possible media questions and answers Minister Woods might give. Most of the answers were clearly designed to dodge the question. For example:

Question: Has the Minister received any advice or requested policy development on phasing out the Block Offer process? [I.e. ending oil and gas exploration]

Answer: The Minister has received briefings related to Block Offers 2017 and 2018 as part of briefings on matters in relation to her Energy and Resources portfolio. [!]

The next day (March 20th) Woods' private secretary emailed MBIE officials asking for a list of "any countries that have implemented action against primarily oil/gas exploration and what that action was". She gave France and Ireland as examples. **So at least by 20 March, the Minister had had further discussions about banning oil and gas exploration with other colleagues, quite likely including the Prime Minister's officials and perhaps even the PM herself.**

Wood's private secretary emailed later asking MBIE officials whether fracking should be covered in the 2018 Block Offer Cabinet paper. Apparently reflecting questions from the Minister, she asked how many wells had been fracked to date and whether all the Parliamentary Commissioner for the Environment's (PCE) recommendations in her final report on fracking had been actioned. MBIE officials replied that approximately 60 wells had been fracked or 'stimulated' (a gross under-estimate according to Taranaki Regional Council records). They also attached a list of key messages about fracking from Auckland consultancy firm Environmental Resource Management (ERM) as talking points for the Minister to use if the fracking issue was raised by the press. Several of these 'talking points' ran contrary to the PCE's initial report on fracking¹⁵ and international research findings¹⁶ about the negative impacts of fracking. By forwarding ERM's 'facts' about fracking without at least mentioning many of the claims were contested by independent research, officials misinformed and misled Minister Woods.

Later the same day, Woods' private secretary asked MBIE officials for a copy of the 2017 Block Offer consultation process, schedule and list of stakeholders. Preparations were already underway to commence consultation once a Cabinet paper was approved and the 2018 Block Offer announced (based on either Option 3 or 4). At the same time, the PM's office was apparently thinking of other alternatives. One of the PM's officials asked earlier in the day "**Hypothetically, if the block offer was put on hold**, is there any other mechanism through which someone could be granted an exploration permit?" MBIE officials replied

¹⁵ Parliamentary Commissioner for the Environment, 2012. *Evaluating the environmental impacts of fracking in New Zealand: An interim report*. November, Government of New Zealand.

¹⁶ For a summary of some of this research, see Loomis 2017, *Petroleum Development and Environmental Conflict...*, pp 52-62.

that an alternative procedure called ‘cash bonus bidding’ (or priority in time) had been used previously and was available. The idea seems to have occurred to someone in the PM’s office that the Government might score points with environmental groups by being seen to end the ‘block offer’ process per se, while placating the petroleum industry by continuing to allocate permits by another means.

Saturday, March 24

Today, Stuff News published an opinion piece by Prime Minister Ardern titled ‘We’re already planning for fossil fuels transition.’ In the piece Ms Ardern stated “We have a plan for weaning New Zealand off fossil fuels that stretches out nearly 30 years into the future.” A subsequent OIA inquiry by the author revealed the Government had no such plan. Minister Woods provided a response,¹⁷ stating that the Government’s targets of a net zero emissions economy by 2050 and one hundred percent renewable electricity generation by 2035 were the “foundations of the plan to transition away from fossil fuels.” Officials across a range of departments were working on policies and strategies for the transition. Woods stated that she and the PM had asked MBIE to establish a team “to consider what a just transition looks like for New Zealand, which would include the fossil fuel industry.”

Tuesday, March 27

Today, with environmental protesters chanting outside the Wellington venue, Minister Woods addressed the New Zealand Petroleum Conference.¹⁸ She began by apologising to her audience of oil industry representatives, consultants and MBIE officials (MBIE provided sponsorship funding for the conference) for not announcing the 2018 Block Offer. She referred to an earlier statement by the Prime Minister that “the Government is actively considering this issue, and we’ll have an announcement in the coming weeks.” Instead, Woods highlighted the broad aims of her Government including “an economy that is sustainable, that is not prone to major shocks, and that meets our obligations to our Paris commitments.” She “acknowledged” that the need for a transition to a low carbon economy was “widely understood” in the petroleum industry (a debatable claim), and reassured her listeners the transition would necessarily take twenty or thirty years so as to avoid disruption to jobs and communities. The Government wanted to bring the industry on board to help with transition planning. As stated earlier, the Minister was apparently a believer in a multi-decade ‘gas bridge’ model of transition rather than a fast-track, high priority investment in renewables and new technology.¹⁹

Mid-afternoon the same day, Woods and two other ministers (possibly Shaw and Peters) met with Prime Minister Ardern for an “Oil and gas sector meeting.” Papers circulated prior to the meeting included ‘*Petroleum allocation scenarios (27 February)*’ and ‘*Overview of the NZ oil and gas sector (14 March)*’ which officials had previously provided Woods. The meeting focused on the pending 2018 Block offer

¹⁷ Reply from Hon Dr Megan Woods to Dr Terrence Loomis, OIA 18-088.

¹⁸ Hon Dr Megan Woods, Petroleum Conference Speech, 27 March 2018
<https://www.beehive.govt.nz/release/megan-woods-petroleum-conference-speech>

¹⁹ As suggested for example in reports by Westpac, 2018. *Climate Change Impact Report*, April; and the New Zealand Productivity Commission, 2018. *Low Emissions Economy (Draft)*, April.

announcement tentatively scheduled for 14 April, and likely the possibility of a ban on all new offshore oil and gas exploration.

Wednesday, March 28

By now it was becoming clear to MBIE officials that a different version of Option 4 of the 2018 Block Offer was being considered that would restrict exploration to onshore Taranaki and ban offshore exploration. Minister Woods' private secretary sent the names of key MBIE officials to the PM's office as contacts for background information or policy advice as this work progressed.

Over the ensuing fortnight, the Prime Minister's office and Woods' private secretary emailed a number of questions to MBIE officials to clarify the implications of halting future offshore oil and gas exploration. For example:

- Could we have a timeline of consented gas exploration/production permits and when they're due to expire, compared with consents for renewable energy (MBIE response: paper titled '*Request for information on gas permits and renewable consents,*' 9 April)
- Methanex is a major consumer of gas for methanol and a significant contributor to GDP. What are the applications for methanol? (MBIE response: paper titled '*Methanol applications,*' 6 April). If offshore exploration for petroleum were banned, how would it affect Methanex? (MBIE response: paper entitled '*Ban on future offshore petroleum exploration: Impact on Methanex,*' 10 April).
- If a ban on future exploration was declared, what seismic surveying would continue for next 5-10 years under existing exploration permits? (MBIE officials check existing work permits and forward the information on 9 April)
- What are the rights of existing permit holders and how might they be affected?

Monday, April 9 – Tuesday, April 10

At the weekly Cabinet meeting today, Minister Woods tabled an item for discussion on Block Offer 2018. According to the Cabinet Secretary's record (*Additional Item: Block Offer 2018*), Woods informed her colleagues of her intention to limit the area available for Block Offer 2018 to onshore blocks in Taranaki. MBIE officials had selected areas for consultation with iwi and hapū, and the consultation would begin on April 12 after the Minister made her announcement of the proposed blocks. Woods also stated that she intended to announce **“there will be no offshore blocks offered in future Block Offers or through an alternative process.”** To provide certainty for the market the rights of existing permit holders would not be affected, and they could apply for mining permits if they found commercial quantities of petroleum. According to Woods (statement April 5 on release of the OIA documents) a lengthy and lively discussion

ensued. This contradicts claims by some media commentators following the exploration ban announcement that Cabinet had not been consulted before the decision was made.²⁰

The following day, April 10th, officials forwarded three briefing papers to Woods' office following up on the Cabinet meeting. All three seem to have been considered by officials as a last chance to get the Minister to reconsider her plan to end offshore exploration.

- The first paper provided a '*Background to the block offer process*' (10 April). The paper spelled out in pedantic detail how decisions were made about selection of blocks and the criteria for awarding permits. It also noted that New Zealand was a relatively expensive region to explore. NZPaM's promotional role under the Crown Minerals Act to attract investment was a challenging one, and the Government should be receptive to "any exploration investment that meets certain minimal thresholds" (para 18).
- A second paper from NZPaM's General Manager on '*Existing rights of permit holders*' (10 April) bluntly informed the Minister that officials did not agree with a ban. The paper briefly listed the main rights of permit holders and licensees under existing legislation. The remainder of the paper presented legal advice [redacted] on why the exploration posed a significant risk [though an earlier briefing paper claimed it wasn't], and then listed seven reasons why a ban on future offshore exploration **ran counter to a number of the Government's own public policy objectives**. Some the points were based on acceptance of the 'gas bridge' model championed by the petroleum industry and its supporters. The cost of early decommissioning of rigs was again mentioned, as well as the highly contentious claim that an exploration ban would contribute to increasing global greenhouse gas emissions.
- A similar claim about gas helping to reduce emissions was made in the third paper on how the country's biggest user of gas Methanex, might be affected by a ban and the negative consequences for New Zealand (*'Ban on future offshore petroleum exploration: Impact on Methanex'*, 10 April).

The three documents could hardly be said to have constituted the kind of objective, disinterested policy advice Ministers would have expected around such a contentious issue. They seemed more about pushing an agenda that, albeit for different ends, was shared by the oil and gas industry.

Wednesday, April 11

Preparations were now underway for announcement of the block offer and exploration ban on Thursday, April 12th. The PM's chief executive Mike Munro emailed a draft text of the PM's announcement to New Zealand First's chief of staff, who emailed back saying Minister for Economic Development Shane Jones would accompany the PM at the announcement. A background aide memoire was sent the same day from

²⁰ E.g. Jenée Tibshraeny, 'Documents reveal MBIE advised Government to limit oil and gas exploration to Taranaki.' *Interest.co*, 5 June 2018. 'NZ's government takes political decision to end offshore oil.' *Heartland Institute Newsletter*, 29 June 2018. <https://www.heartland.org/news-opinion/news/federal-judge-tosses-out-bogus-climate-lawsuit>

MBIE's promotions officer to Jones's secretary, the PM's office and Woods's private secretary confirming (a) the Block offer 2018 would be limited to onshore Taranaki and that no further offshore permits would be offered, (b) the announcement was meant to provide certainty for the industry, (c) there would be no change to the rights of existing permit holders, and that (d) there would be fiscal and legislative implications for government and economic effects on Taranaki.

During the 24 hours before the announcement, officials held meetings and exchanged emails about the details of the block consultation plan, key messages for ministers, and a list of key 'stakeholders' to contact. In previous years consultation with iwi and local councils located in the affected blocks commenced on the day the block offer was announced. Officials proposed following the same procedure this time, and MBIE's iwi/regional relations officer circulated coordinated gathering a list of stakeholders. However, given the offshore exploration ban was likely to be a bombshell, MBIE officials recommended in addition contacting key petroleum industry executives *the night before the actual announcement*. Though this was unusual, the Minister apparently agreed.

On Wednesday afternoon April 11th, Woods' private secretary contacted MBIE officials with questions from the Prime Minister's office about the fact sheet being prepared for ministers to use at the announcement the following day. The questions included whether the 25% success rate for exploratory wells was still the right figure to use and whether it was alright to continue using 2046 as the end date for existing permits.. MBIE officials confirmed 25% was the approximate commercial success rate that companies expected when they drilled an exploratory well, and the year 2046 was still ok to use.

Woods' private secretary contacted the core group of MBIE officials in the early evening, following up their meeting earlier that morning to sign off on the fact sheet, finalise the talking points for Minister Woods after she announced the Taranaki blocks on offer and confirming which MBIE staff would be making calls to industry executives in the next couple of hours on the pending policy announcements. At 10 pm Dave Darby, NZPaM's Manager Commercial, Analysis & Investment circulated an email saying he had "phoned NZOG, NZEC, TAG, Mitsui and TGS...All good, disappointed/resigned/ philosophical. No red flags so far." NZPaM GM James Stevenson-Wallace emailed soon afterwards stating he had spoken with PEPANZ [probably CEO Madgwick], the Major Electricity Users Group, Methanex, and Transpower. He reported a "mature/subdued response, concern over investment certainty, security of supply". He had left messages for the Major Gas Users and the Gas Industry Company, and would "contact Horizon and Ofer in the morning."

The casual reference to Eyat Ofer is revealing. Apparently NZOG's billionaire owner was still in the country six weeks after meeting with Minister Woods [unless officials phoned Ofer at home in Monaco]. His presence was obviously known to all the officials involved in the email exchanges, some of whom may have met with him during his extended stay in the country. Officials had obviously agreed earlier in the day that Ofer warranted a personal call from NZPaM's GM to inform him of the ban on new exploration, and assure him it wouldn't affect NZOG's plans for the Barque field.

At midnight, Minister Woods' private secretary emailed a brief paper from the Minister summarising the decision-making process she had followed since before receiving the 27 February 2018 Block Offer 'scenarios' briefing paper from MBIE officials. The OIA emails do not say to whom the paper was sent. In it, the Minister mentioned her criteria for choosing among options, highlighted key developments in formulating the policy, and how she eventually decided in consultation with the PM and other colleagues to restrict exploration blocks to onshore Taranaki and end new offshore exploration. Woods emphasised that she kept her ministerial colleagues informed at all times, and the Cabinet discussion about the block offer announcement had been robust. It was certainly strange timing for circulating a personal note apparently aimed at documenting for the record how she arrived at her policy decision.

Thursday, April 12

Mid-morning, Prime Minister Ardern accompanied by Ministers Woods, Jones and Shaw met the press in the Beehive. Woods announced that the 2018 Block Offer would be restricted to onshore Taranaki and that the consultation process with iwi/hapū and local authorities had commenced. The Prime Minister then announced that the Coalition Government had decided that no further offshore oil and gas exploration permits would be granted:²¹ "We are protecting existing exploration and mining rights. No current jobs will be affected by this as we are honouring all agreements with current permit holders." With 31 active exploration permits, mining might continue well past 2050. She said the policy was part of a package of measures to tackle climate change: "Today we are providing certainty for industry and communities so they can plan for the future. We are making careful and considered changes over time and supporting communities with a managed transition."

Conclusion

Media commentators and critics of the government have portrayed MBIE officials as being 'kept in the dark'²² or surprised at the last minute when they 'found out'²³ Minister Woods was planning to ban new offshore oil and gas exploration. The OIA documents and public statements by Prime Minister Ardern and senior ministers show that it wasn't Woods' decision alone. Neither was it a plot by ministers to ignore official advice and introduce what petroleum industry spokespersons and the Opposition portrayed as an ill-informed, ideologically-driven policy. Woods had discussed the issue of the future of oil and gas exploration with the PM and other ministers. She and her private secretary along with MBIE officials and the Prime Minister's office had been communicating for weeks before the public announcement on April 12th about the exact form of the 2018 Block Offer and extent of exploration restrictions.

On the contrary, the OIA documents suggest MBIE officials were aware by the beginning of 2018 that the new Government was contemplating a change to the block offer process that could include restrictions on future petroleum exploration. As that likelihood became more apparent, officials' stance gradually shifted

²¹ Rt Hon Jacinda Ardern, 'Planning for the future - no new offshore oil and gas exploration permits.' 12 April 2018. <https://www.beehive.govt.nz/release/planning-future-no-new-offshore-oil-and-gas-exploration-permits>

²² E.g. John Kidd in 'Gas production problems cost Methanex \$2m a day.' *Newsroom*, 26 June 2018.

²³ E.g. Jenée Tibshraeny, 'Documents reveal MBIE advised Government to limit oil and gas exploration to Taranaki.' *Interest.co*, 5 June 2018.

from providing factual information about the sector and reasons for facilitating its development (under the CMA) to actively defending the industry by:

- incorporating some of the industry's promotional spin into policy briefings
- uncritically repeating questionable industry claims about its benefits to the country and the climate
- providing cursory analyses of the possible negative impacts and legal risks of an exploration ban, and
- generally attempting to dissuade the Minister from taking action that could jeopardise the petroleum industry's long-term viability irrespective of the climate science indicating oil and gas exploration and production must be urgently phased out.

This was not the sort of objective, evidence-based policy advice Ministers would have expected and found useful in attempting to implement the Government's objectives around climate change and phasing out reliance on fossil fuels.

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