



Rewarding Learning

ADVANCED
General Certificate of Education
January 2014

Business Studies

Assessment Unit A2 2

assessing

The Changing Business Environment

[AT221]

THURSDAY 23 JANUARY, AFTERNOON



TIME

2 hours.

INSTRUCTIONS TO CANDIDATES

Write your Centre Number and Candidate Number on the Answer Booklet provided.
Answer the **one** question.

INFORMATION FOR CANDIDATES

The total mark for this paper is 80.
Quality of written communication will be assessed throughout the paper.
Figures in brackets printed down the right-hand side of pages indicate the marks awarded to each question or part question.

ADVICE TO CANDIDATES

You are advised to take account of the marks for each question or part question in allocating the available examination time.

Study the information and answer the question that follows.

Providence Resources plc – The way forward in Northern Ireland

Source 1: Providence Resources plc

Providence Resources plc is a public limited company registered in Dublin, Ireland, although the company also operates on a global scale within the oil industry. The company specialises in oil exploration and has acquired drilling permits for oil exploration in Northern Ireland. The company's Chief Executive, Tony O'Reilly, recently discussed the possibility of drilling off the north coast, near Rathlin Island, stating that: "We would be looking to do our exploration programme there. Obviously, we have to go through a consultative process and we have started to do that. It is a major interest area for us". The company believes that a substantial quantity of oil lies underneath Rathlin Island and the surrounding geographical area, and may now seek international investors to help it exploit the oil well and surrounding oil field, which the firm hopes will be viable.

The company recently stated that it had found the first viable oil well in the Republic of Ireland, having made the discovery 70km off the County Cork coast. Management indicated that the exploratory Barryroe oil well delivered double the amount of oil needed to make it commercially viable – yielding almost 4000 barrels of oil a day.

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Source 2: Summary Financial Data

Table 1: Summarises key financial data related to Providence Resources plc

Interim Financial Period (30th June)	Sales Revenues (€ m)	(Profit/Loss) Before Tax (€ m)	Dividend (€ m)	Gross Profit Margin (%)
2009	10.46	-6.58	0.0	n/a
2010	5.98	-1.22	0.0	58.0
2011	5.72	-16.36	0.0	70.0

Source: adapted from www.providenceresources.com

Source 3: Providence Resources plc Corporate Social Responsibility Issues

In relation to oil exploration activities undertaken to date, in the area of Rathlin Island, a company spokesman stated: “We are a company who have been doing this for 30 years. We are not in any way coming in to make (profits) and get out quickly”.

During May 2012, the Irish Sailing Association (ISA) announced that Providence Resources plc, would sponsor the Irish Olympic Sailing Team enabling the team to undertake world-class preparations for both the London Olympics (2012) and the 2016 Olympics. The partnership was launched in Dublin by Olympic sailor, Annalise Murphy and Providence Resources Chief Executive, Tony O’Reilly.

Source: adapted from www.providenceresources.com and <http://www.sailing.ie>

Source 4: Quest for oil in Northern Ireland has its cost

Globally, oil has risen in price from \$10 to over \$120 a barrel since the 1970s, which makes oil exploration more commercially viable than it might have been in the past. Four exploration licences have been granted within Northern Ireland. However oil exploration is still a risky business. Recent press articles suggest that £3 billion has been wasted exploring Irish waters for oil. Indeed, not one drop of Irish oil has been extracted since the speculators arrived in the 1960s.

Northern Ireland has no proven resource or ability to extract oil, therefore companies with the expertise must be given incentive to spend in exploration. As such, a licence costs just £1,000, regardless of how much a company may make through obtaining one. Once obtained, multinational oil companies such as Shell, Esso and BP often collaborate in a joint venture to extract oil from the well.

Members of the management team at Providence Resources plc have declined to disclose costs incurred to date in respect of oil exploration activity near Rathlin Island, or the potential capacity (barrels of oil) or projected revenues from this oil well. An industry insider estimates that expenditure on oil exploration can amount to as much as \$100 million (£60 million approx. at current exchange rate) per oil well.

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Source 5: Environmental, wildlife and related issues

Rathlin Island’s birds (and wildlife) could be threatened by plans to drill for oil off its coast, the RSPB has said. James Robinson, director of the RSPB NI, stated: “The RSPB is really asking the UK government not to license oil and gas exploration in these areas as they are too important for wildlife”.

He continued: “This industry isn’t safe – and a lot of the information that we have suggests that they have not really explored what are the actual impacts and how they would be able to mitigate those impacts in the future,” he added.

Dr Philip Griffiths, an energy specialist from the University of Ulster, admitted there were “risks associated with any of these activities ... tankers sailing by Rathlin heading for the North Sea are just as much of a danger to the habitat (environment) as any drilling exercise”.

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Source 6: Government Policy

Current UK Treasury rules suggest that any profits from oil exploration will be taxed at around 62%. A further 7.4% will filter back to Northern Ireland, through the Department of Trade and Enterprise. Unlike other parts of the UK though, the Northern Ireland Executive does not currently charge any land rental fees on oil fields.

The UK Government recently announced financial incentives (totalling over £100 million) to encourage oil and gas exploration within smaller off-shore oil fields surrounding the UK coast. Key UK industry statistics, reported during 2010, were as follows:

- Produced 2.3 million barrels of oil and gas equivalent (5% less than in 2009)
- Invested £6.0 billion of capital (£4.9 billion in 2009)
- Spent £1.1 billion drilling 62 exploration and appraisal wells (65 wells in 2009)
- Paid more than £9.3 billion in production taxes (fiscal year 2010–2011)
- Supported employment of around 440 000 people across the UK.

Source: adapted from <http://www.oilandgasuk.co.uk/news/news.cfm/newsid/584>

Source 7: Northern Ireland Economic Environment

In recent years Northern Ireland has become increasingly successful in attracting foreign direct investment. The following factors have been put forward by Invest NI:

- Fresh talent and skills in abundance
- Competitive operating costs
- Sector/cluster strengths
- Accessible to Europe
- Pro-business climate
- Generous financial assistance and support.

In recent times, local politicians have lobbied the UK Treasury in a bid to lower the rate of corporation tax in Northern Ireland (to a rate comparable with the 12.5% rate levied in the Republic of Ireland), in an effort to attract foreign direct investment.

Employment statistics reported in the national press indicated that the estimated seasonally adjusted employee jobs total in Northern Ireland in June 2012 was 693 110. This represented a decrease of 2360 jobs over the year.

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Source 8: Alternative Energy Sources

At a recent conference, the Energy Minister from the Northern Ireland Assembly, said: “Northern Ireland has been very active in renewable energy development and the Marine Energy sector is a key area in which we see real economic opportunity ... a recent announcement to award development rights for a 600 megawatt offshore wind project and 200 megawatt tidal development in Northern Ireland waters was a significant milestone”. The Minister continued: “Northern Ireland’s strategic aim is for a more sustainable energy system where much more of our energy is generated from renewable sources. Through the support of Invest Northern Ireland we will continue to help build the capabilities of our local businesses so that they can become viable supply chain partners in this lucrative and challenging environment”.

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Question 1

You are an adviser employed by the management team of Providence Resources plc. You have been asked to prepare a formal report entitled "Providence Resources plc – The way forward in Northern Ireland".

The aim of the report is to examine whether Providence Resources plc should seek to develop the oil field off Rathlin Island. Your report should be in an appropriate format and should include recommendations to the management team of Providence Resources plc.

(You **may** find it useful to address **some** of the following areas in your report: business objectives, stakeholder objectives, financial implications, pressure groups, business ethics, economic growth, employment, corporate social responsibility, economic instruments used to achieve government objectives, effect of government objectives on business, international dimension of business, change management.)

[80]

THIS IS THE END OF THE QUESTION PAPER

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