UK, Norwegian offshore are set on new directions

NEW POLICIES and investment strategies mark the offshore oil and gas industry in two key sectors of the North Sea.

In Norway, the long-discussed privatization of Statoil and the sale of the state's direct financial interest in the Norwegian Continental Shelf have begun.

In the UK, the UK Offshore Operators Association announced in late April its strategy for sustainable development. UKOOA called it "one of the first documents to be produced by a UK industrial sector that comprehensively describes how it plans to meet its economic, environmental and social responsibilities."

In both the UK and Norwegian offshore sectors, new license awards promise to help sustain activity.

There is growing interest, too, in far northern deepwater areas. A conference focusing on opportunities and challenges in the region, IADC Drilling Northern Deepwater 2001 was held in Stavanger at the end of May.

As deepwater technology continues to advance and rig capabilities expand, this region shows promise.

The North Sea is still a healthy petroleum province and an increasingly attractive market for drilling contractors.

According to **Global Marine Inc**'s Summary of Current Offshore Rig Economics (SCORE), the profitability of mobile offshore drilling rig day rates increased more during the period from April 2000 to April 2001 in the North Sea than in any other region.

At 44.4, the North Sea's rating was up 122% in April from one year earlier. The 5-year change, however, was down almost 30%.

"April's SCORE reflects the continuing improvement in key international offshore drilling markets," said **Bob Rose**, Global Marine Chairman, President and CEO.

SCORE compares the profitability of current mobile offshore drilling rig dayrates to the profitability of dayrates at the 1980-1981 peak of the offshore drilling cycle.

PRIVATIZATION

The long discussed privatization of Norway's state oil concern, **Statoil**, began earlier this year when the Storting approved a proposal to offer up to one third of Statoil for private ownership.

Trading began 18 June on the Oslo and New York stock exchanges. The initial public offering was to sell 189 million shares; the government will still own about 80% of the stock.

After the IPO, Statoil "will be allowed to sell parts of itself" by entering into partnerships with foreign firms.

The Norwegian government will retain at least a 67% stake in Statoil.

Norway also moved to sell a chunk of the state's direct financial interest (SDFI) in oil and gas on the continental shelf.

It sold 15% of the state's direct interest in offshore oil and gas exploration licenses to Statoil for $4.2 billion.

The sale of SDFI stakes includes interests in 10 of the largest producing fields on the Norwegian Continental Shelf—Troll, Gullfaks, Snorre, Vigdis, Tordis, Visund, Statfjord East, Åsgard, and Sleipner East and West—and reportedly will boost Statoil's production and reserves base by more than 50%.

A new state owned company will be organized to manage the remaining assets of the SDFI.

SDFI's oil and NGL production totaled 471 million bbl in 2000, an increase of 2% from the year before.

Its proven reserves as of 31 Dec stood at 3.18 billion bbl of oil and 896 billion scm of natural gas.

Additions have not replaced production in recent years, reducing proven oil reserves from 3.475 billion bbl and gas reserves from 908 billion scm in 1998.

AN OUTPUT RECORD

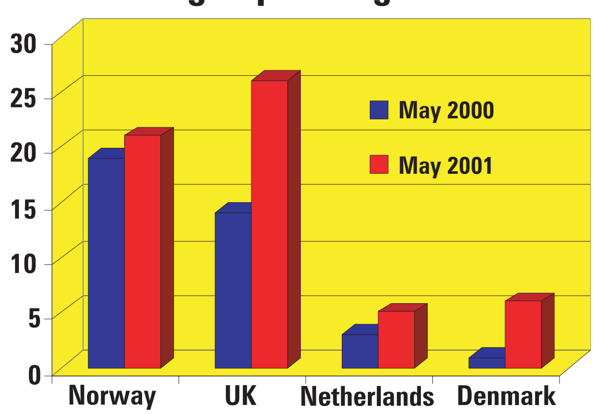
In Norwegian waters, the number of offshore rigs at work remained steady over the past year; in May, the **Baker Hughes** International Rotary Rig Count showed 21 offshore rigs operating in Norwegian waters, up from 19 a year earlier.

But record-setting oil and gas produc-

North Sea Awards 2000

Blocks or partial blocks	Company	Share, %
16/2, 3	Statoil (Operator)	30
	EssoMobil	25
	Enterprise	15
	SDFI	30
26/1, 2, 4, 5, 7, 8 31/10, 11	Enterprise (Operator)	40
	Norsk Hydro	30
	RWE-DEA	30
34/5, 6, 9 (part)	Conoco (Operator)	40
	Chevron	30
	Fortum	30
35/1	Phillips (Operator)	40
	Enterprise	30
	Agip	30
35/3	RWE-DEA (Operator)	51
	Aker Maritime	49

Offshore rigs operating in N Sea



Source: Baker Hughes International Rig Count.

tion, new producing fields and new licenses indicate the strength of the Norwegian sector.

Several new fields were approved for production during 2000 and and 9 new discoveries were made in Norwegian waters.

New license awards earlier this year will likely increase activity. Norway announced North Sea Awards 2000 in September.

In late March, 11 companies were awarded licenses in 15 blocks or parts of blocks.

The state's direct financial interest (SDFI) also has a 30% share in one license.

Operators of the newly awarded blocks are **Conoco**, **Enterprise**, **Phillips**, **RWE-DEA**, and Statoil.

"The North Sea Awards 2000 is important for the long term resource management on the Norwegian Continental Shelf," said **Olav Akselsen**, Minister of Petroleum and Energy.

"Carrying out this Round will contribute to increased exploration activity, and may in the longer term give new field developments."

At the end of 2000, 62 fields had been approved for development on the Norwegian continental shelf and 45 were in production—40 in the North Sea and 5 in the Norwegian Sea.

Production has ceased in 10 fields and 7 fields in the North Sea have approved development plans but have not yet started production. Two fields in the North Sea, Sygna and Oseberg Sør, began production last year.

Norway's crude oil production peaked in 2000 at 3.1 million b/d, after averaging 3 million b/d each year since 1996.

Oil production is expected to "remain more or less unchanged until 2004, then to go into a gradual decline," according to the Norwegian **Ministry of Petroleum and Energy**.

Gas production also set a record in 2000 at 49.9 million scm.

And rather than a flat production level, gas production is expected to expand substantially to about 70 million scm within 5 years, according to the Petroleum Ministry.

A NEW UK STRATEGY

"Striking a balance—the UK offshore oil and gas industry strategy for its contribution to sustainable development 2001," was published 25 April by UKOOA. According to UKOOA, the document was produced in direct response to the government's challenge for companies to address the "triple bottom line," to integrate better performance in the economic, environmental and social aspects of their businesses. It applies to the activities of the Association's 32 member companies with oil and gas exploration and production operations on the UK continental shelf.

The UKOOA sustainable development commitments include objectives related to economics, social issues, the environment and stewardship of resources:

UK 19th Offshore Round

Block	Operator	Partners
176/20	Amerada Hess	BG International Dong E&P
176/25	Phillips	Statoil, Veba
204/9 204/10	Amerada Hess	Texaco, Dong E&P OMV
204/16	Amerada Hess	BG International Dong E&P
204/17	Texaco	Conoco, EDC
204/18	BP Exploration	Shell UK
204/21	Amerada Hess	BG International Dong E&P
213/5 214/1	Texaco	Intrepid Energy
213/26 213/27	Texaco	

• Strategic economic objective—To enhance the UK offshore oil and gas industry's competitiveness to attract continuing investment and deliver long term benefits to the UK economy in terms of jobs, security of energy supply and tax revenues;

• Strategic social objective—To conduct business in recognition of the industry's contribution and responsibility to society through continual improvement in safety and working conditions; engagement with local stakeholders and other users of the sea and support for local authorities and communities;

• Strategic environment objective—To achieve continual improvement in environmental performance using long term goal setting; developing knowledge of the industry's effects on the environment; promoting technological innovation; adopting independently verified environmental management systems;

• Strategic stewardship objective—To ensure prudent use of natural resources by maximizing recovery of oil and gas; developing and applying new technologies; making best use of the existing infrastructure of offshore installations and pipelines and adopting a whole life cycle approach.

Among the details of the strategy are the industry's goals to improve offshore safety, adopt independently verified environmental management systems by the end of 2002 and to reduce the volume of small accidental oil spills by 30% by the end of 2003.

The strategy took more than a year to develop and involved both internal debate among UKOOA members and external consultation with government departments, the contractor sector, trades unions and a diverse range of interest groups.

"The UK oil and gas industry's responsibility is to find a way to balance the considerable economic and social benefits with good stewardship of the nation's natural resources and environmental care," said **Bob Connon**, Managing Director, **Chevron Europe** and Chairman of UKOOA's sustainable development strategy group.

"That is the essence of our industry's contribution to sustainable development."

Commenting on the strategy, UK Energy Minister **Peter Hain** said, "The offshore oil and gas industry provides thousands of jobs and is vital to the UK economy. I applaud the industry on achieving a long-term strategy that seeks to sustain supply while protecting the environment."

The UK offshore oil and gas industry supports about 270,000 jobs and has invested £190 billion (2000 prices) in the UK since the mid 1960s.

It has contributed some £170 billion in tax revenues since the 1970s and accounts for 84% of the UK's primary energy consumption.

19TH ROUND A BOOST

Offshore activity in the UK sector of the North Sea increased over the past year. The Baker Hughes count showed 26 offshore rigs were at work in UK waters in May 2001, compared with only 14 one year earlier.

A new round of licenses also promises to keep operators interested in the Atlantic Margin.

The formal award of the 19th Round "white zone" licenses was made following the enactment of new environmental regulations putting the Habitats and Birds Directives into effect.

Mr Hain said, "We have worked long and hard to ensure that the requirements of the Habitats and Birds Directives are properly applied to the decision making process for oil and gas activities.

"The new regulations incorporate many of the views expressed during our consultation exercise over the winter

"We now have a workable and highly effective system for protecting unusual or rare habitats in UK waters, while encouraging responsible developments of the UK's valuable energy resources."

The new license areas are located to the north west of Scotland in the Atlantic Margin and represent a significant opportunity for new hydrocarbon exploration, said UKOOA.

"The industry is optimistic that these areas hold the potential to extend the life of the UK's offshore industry as fields in the North Sea decline…."

James May, Director General of UKOOA, said operating in the Atlantic Margin brings challenges.

"Water depths are amongst the deepest to be found around the British Isles (up to 5,600 ft). Weather conditions can be extreme and the geology of the underlying rock complex.

"However, technology in the industry is constantly evolving to overcome these physical difficulties to produce oil and gas safely, economically and with proper regard to the protection of the environment."

To date, about 150 exploration wells have been drilled and 3 oilfields—Foinaven, Schiehallion and Loyal—are already in production in the Atlantic Margin to the northwest of Scotland. Development of a fourth field, Claire, is planned with first production in 2004.

The area is estimated to hold 1.5 billion bbl of potentially recoverable reserves.

A total of 12 blocks were awarded. **Amerada Hess** as operator was awarded 5 blocks, **Texaco North Sea UK Co** gained 5 blocks, **Phillips Petroleum Co UK** 1 block and **BP Exploration Operating Co**, 1 block.