

Building UK – Norwegian Co-operation in the North Sea

Oslo 2 October 2003

**BUILDING UK-NORWEGIAN CO-OPERATION IN THE NORTH SEA:
A STATEMENT BY UK AND NORWEGIAN ENERGY MINISTERS**

Rationale

1. Our two nations are both fortunate to benefit from oil and gas reserves under the North Sea. We share a common maritime boundary and a common interest in ensuring the optimal development of our respective reserves in a safe and environmentally sound manner. We recognise the benefit in strengthening our partnership to ensure that the North Sea remains a good place to do business and reconfirm our joint commitment to the openness of markets on trade issues.
2. Moreover there is an opportunity to exploit the synergy between our two countries' future needs in the supply and consumption of gas. Norway is looking for a substantial new market as she embarks upon the challenging development of her large Ormen Lange field. The UK, notwithstanding the important efforts to prolong the productive life of the UK Continental Shelf, is expected to become a net importer of gas later in this decade and consumers will need substantial supplies of new gas. The UK therefore sees Norway as an attractive source of gas to contribute to the UK's future diversity and security of energy supply in line with UK's recent Energy White Paper. For Norway, the UK is an attractive and expanding future market for Norwegian gas.
3. Just over a year ago, a working group of leaders from PILOT and KON-KRAFT published a visionary report which identified new and innovative ways to facilitate the optimum recovery of the UK and Norway's North Sea resources. Identifying a co-operation prize of as much as \$2 billion,

it challenged governments and industry alike to enhance commercial co-operation across all aspects of oil and gas recovery and to facilitate an increased movement of hydrocarbons across the maritime boundary. In particular, it recommended that the two governments put in place a new treaty to clarify the regulatory framework for a range of future possible commercial projects across the boundary.

A “win-win” approach

4. Against this background, the UK and Norwegian governments and our respective industries have been working to identify steps that might be taken to improve the clarity of the regulatory environment for cross-boundary activities, to unlock value from hydrocarbon resources on the two continental shelves and deliver benefits to both our respective industries and to facilitate the delivery of substantial quantities of Norwegian gas to UK consumers both to enhance the UK’s security of energy supply and provide a new outlet for Norwegian gas sellers.

5. At Government level, we have today agreed the key principles which will be incorporated in a new treaty between our two nations, setting a framework for regulating a wide range of potential cross-boundary projects. The agreement will cover the development of new fields that straddle the maritime boundary, the use of installations on one continental shelf to exploit resources on the other side of the boundary and the construction, laying and operation of a range of pipelines including landing pipelines. With the variety of projects it addresses, the treaty constitutes the most comprehensive energy co-operation yet between our two nations.

Key Principles of the Treaty

6. In drawing up the key principles to be incorporated in the new treaty, we have set out the roles of the two Governments in facilitating the realisation of cross-boundary projects. We have looked to provide a fair balance of opportunity to licensees on our two Continental Shelves, along with regulatory clarity for crossboundary projects and the accompanying degree of investment certainty for the offshore industry. We are committed to incorporate a high degree of joint determination concerning joint projects, including fair access to pipelines crossing the maritime boundary, a central element of EU/EEA principles. Our various regulatory authorities will work in concert to ensure, where possible, the compatibility of any overlapping requirements and standards. Most specifically, we have agreed the regulatory terms for two new dry gas links – a new landing pipeline and a prospective link between Norwegian and UK dry gas infrastructure.

7. We particularly want to ensure that the treaty both aids the smooth functioning of offshore oil and gas activity and is flexible enough to enable the swift resolution of any problems which might arise. We also want to ensure that the decision making process between the two Governments in respect of joint projects is better co-ordinated. We therefore intend to keep the implementation of the treaty under constant review to ensure that it is fully meeting the objectives we have set for it and we will establish an inter-Governmental forum for this purpose.

8. The key principles agreed upon by our two Governments are set out in more detail in the accompanying document and supporting annexes.

The Way Forward

9. We shall now incorporate these key principles into a new treaty. This will involve much careful detailed work. We will put high priority on finishing this work as soon as possible.

10. The key principles we have agreed on to-day will form a firm basis for new investments by the industry.

Industry Co-operation

11. We strongly welcome the continuing co-operation developing between our two industries - both collectively, under the auspices of the PILOT-KONKRAFT initiative as well as between individual companies. We are seeing the creation of a co-operative environment by the commercial parties on either side of the maritime boundary as they actively pursue the win-win approach we earlier referred to. There are a number of concrete examples.

12. Now that we are agreed on the key principles of the Treaty, investors will have the confidence to continue with their firm plans for a new pipeline from Sleipner to Easington for delivery of Norwegian dry gas to the UK ("Britpipe"), with expected commencement of deliveries from October 2006. This will constitute a considerable amount of gas, up to 20 bcm/pa, which is approximately 20 per cent of the UK's current annual gas demand and some 20 per cent of Norway's annual gas production. We welcome this development as a major example of strengthening the cross-boundary development co-operation between Norway and the UK.

13. There are ongoing technical discussions between UK infrastructure owners and Statoil and Gassco in looking at optimum solutions for a dry gas link to existing UK offshore infrastructure. Gas supply projections have indicated a future need for additional cross-boundary transport capacity from 2008 of volumes of gas in excess of those currently planned to be transported through Britpipe and the existing Norwegian Vesterled pipeline. The use of such UK infrastructure would not just provide Norwegian gas sellers with additional transportation flexibility, but would help sustain activity on the UKCS by keeping infrastructure operational. The two Governments will seek to satisfy themselves that the process for selecting a transportation solution has been open and transparent and that the best economic solution has been selected.

14. We take note of the commercial arrangements to deliver rich gas from the Statfjord field to the UK.

The Future

15. An important step has been taken in the development of the North Sea as a whole, in committing ourselves to the basic principles for the new treaty. Governments will finalize the drafting of the treaty as soon as possible and industry will continue their project development and commercial negotiations. Governments and industry alike recognise that the optimum development of the North Sea can only be achieved by closer co-operation across the boundary. As Ministers, we remain committed to driving this initiative forward.

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Oslo, 2 October 2003

Attachments:	Joint UK/Norwegian Ministerial Statement on a New Framework Agreement and Related Issues.
Annex A	Work process to determine the need for and selection of additional transport capacity for dry gas from Norway to the UK.
Annex B	Extract from Gas Directive 2003/55/EC.
Annex C	Principles for determining exit tariffs offshore for the Norwegian dry gas system.
Annex D	Third Party Access to upstream infrastructure on the UKCS: Tariff setting principles.