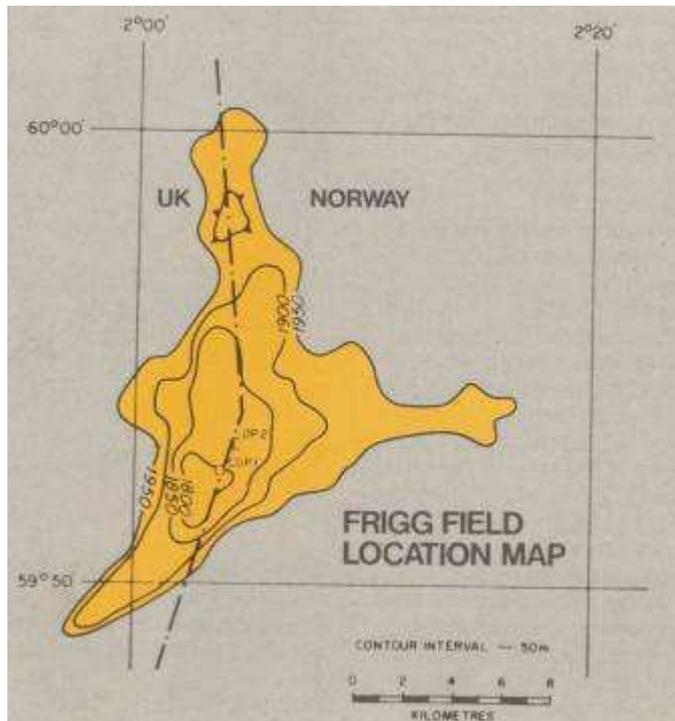


Politics, Economics & Society

On its discovery in June 1971, the Frigg Field was the largest known offshore gas-field, and was then the most northerly in the North Sea. The North Sea is a harsh environment weather conditions are severe in winter and the weather window (when the North Sea is calm enough for work to be done) is at most only a few months a year.



The field lay 118 miles (190 kilometres) from Norway and 223 miles (360 km) from Scotland, on the Continental Shelf between the two countries. Norway and the UK had signed a boundary agreement in 1965 stating that both parties must agree on how any petroleum field straddling the boundary should be exploited. This was not an uncommon clause, but before the Frigg Field was discovered, it had never been used before.

Treaty

The Frigg Treaty was signed 10 May 1976, coming into force later that year. Its full title is *Agreement between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the Kingdom of Norway relating to the Exploitation of the Frigg Field Reservoir and the Transmission of Gas therefrom to the United Kingdom.*

Frigg was the first field crossing an international boundary to be developed offshore and this, coupled with its remote location in deep waters, made developing it a challenging and ambitious venture. Initial assessments indicated that 60% of the reserves were in the Norwegian sector, and on this basis it was decided to follow the recommendation of an independent consultants and split them 60.82% to Norway, 39.18% to Britain. Later studies confirmed the initial findings. There were, and still are, two consortia of interested parties. In the UK, the original parties were Total Oil Marine Ltd and Elf Aquitaine Group; in Norway, Elf Aquitaine Norge a/s, Norsk Hydro a/s, Statoil and Total Marine Norsk a/s. All installations would be built, operated and financed as one unit. Elf Aquitaine (based in Stavanger) was designated

Operator for the Frigg Field, and Total Oil Marine as Operator (based in Aberdeen) for MCP-01, the pipelines and the processing terminal at St Fergus.

It was not immediately apparent that all the gas would come to Scotland, and other options were considered, such as Norway and Holland. A Norwegian landing was rejected because of the Norwegian Trench which lay between the Frigg Field and Norway. The technical difficulties of laying a pipeline across a gap 15 to 20 miles (25 - 30 kilometres) wide, 1000 feet (400 metres) deep, in a region that experiences weak, but regular, seismic activity, were considered too great. In 1973, it was decided that Norway would sell its share of the gas to the British Gas Corporation.

The 1970s were a period of economic instability in Europe, with inflation and volatile currency exchange rates. The construction of the platforms was divided between Scotland, Norway and France, and the economic situation inevitably had an impact: the completion of the platform TP1 was delayed by a year due to a strike in the Scottish construction yard at Ardyne Point, Argyll. Despite this, the first gas arrived in Britain before the 1 October 1977 date specified in the contract.

The co-operation required between the two countries was extensive. Mutually agreeable construction, inspection and Health & Safety standards had to be negotiated for the installations and pipelines alike. As this required the fluid movement of personnel and material between them, it was agreed that they would be treated as a single unit for customs and immigration purposes too. On the platforms in British waters (except MCP-01), Norwegian Health & Safety practices dominated. Employees were able to pay tax on their earnings to either Britain or Norway. Both countries taxed their licensees for the profits and charged capital taxes on the installations/equipment, irrespective of whether this happened on their side of the boundary or on the other country's side.

The Treaty was revised in 1998, to enable gas from other fields to be transported through the Frigg pipeline to the United Kingdom as Frigg gas production declined. It simplified the procedures governing possible future use of the pipelines by third parties. It also gave the UK jurisdiction over the Norwegian pipeline that lay in UK territory (sea and land), as previously Norway had jurisdiction along the whole pipeline, right up to St Fergus. Although the pipelines have years of use ahead, the revision also laid out procedures for their eventual decommissioning. A Framework Agreement on interconnecting pipelines removed the need for separate treaties each time a new pipeline was to be connected to the existing infrastructure, whether on the UK or Norwegian side. The intention was that, by simplifying matters, it would encourage new links to the pipelines to ensure they were as efficient and viable as possible.

Decommissioning of the Frigg system has been a joint approach by UK and Norway because platforms in the Frigg Field straddle the border, and MCP-01



Third Draft of the MCP-01 Decommissioning Programme

served both the UK and Norwegian pipelines. Usually, it is the Department for Business, Enterprise and Regulatory (formerly the Department of Trade & Industry) which is responsible for the decommissioning of the UK's installations, but the procedures of both countries had to be modified slightly to accommodate each other. For example, the UK's usual 30-day consultation period was extended to 45 days to due to the Norwegian practice of longer consultation periods. Fortunately, both countries are signatories to the OSPAR Commission (Commission for the Protection of the Marine Environment of the North

East Atlantic), a 1998 agreement on the rules to be applied to the disposal of offshore installations. For instance, the large steel platforms of Frigg could not be toppled in situ or disposed of at sea. The topsides of all installations had to be brought ashore for disposal or re-use. As MCP-01 and the rest of the platforms were not designed with dismantling and decommissioning in mind, drawing up the final decommissioning plans was a complex and challenging process.

Approximately half of MCP-01's topside will be removed to Aker Kværner's facilities in Stord, Norway. The rest will be taken to the Greenhead Base at Lerwick, Shetland Islands, over a period of three years, for reuse, recycling or disposal.

Tax

Frigg gas was exempt from Petroleum Revenue Tax (PRT, despite its name, this tax applied to natural gas too). Fields discovered quite early often were, although Frigg was one of the last to qualify for exemption. The intention was to keep prices low for consumers, even though this resulted in lower profits for the companies. However, this only applied to the UK's share of the gas. That bought from the Norwegians was subject to various Norwegian taxes, making the gas coming through pipeline 2 slightly more expensive than that from pipeline 1.

The responsibility for taxation lies primarily with the Treasury, Inland Revenue and, less significantly, the Department for Business, Enterprise and Regulatory Reform (formerly DTI). There are three main taxes on oil and gas produced on the UK Continental Shelf:

- Royalty: (not applicable to fields that started life after 1982) a six-monthly tax worth 12.5% of the value of the hydrocarbons brought ashore minus transportation and treatment costs. This is the only tax administered by the Department for Business, Enterprise & Regulatory Reform.
- PRT: (not applicable to Frigg or fields starting life after March 1993), another 6-monthly tax on profits, administered by Inland Revenue.
- Corporation Tax: this equals 50% of all profits. For most companies, Corporation Tax is 30% of all profits, one of the lowest company tax rates in the world, but there is an additional 20% supplement payable by all gas and oil companies. It is also administered by the Inland Revenue.

Society

The arrival of the North Sea hydrocarbon industry had an enormous impact on UK society. The realisation that there were large and accessible natural gas reserves prompted the government's 1966 decision to convert the entire country to natural gas supply. Previously, coal gas, or town gas, had been used as a fuel supply, and had been since the late eighteenth century. Self-sufficiency in energy was a major reason for the change, although as town gas was toxic, another consequence was that, post-conversion, fewer people were killed by their gas supply. Starting in 1968, the programme took until 1977 to convert every appliance of the 14 million domestic, industrial and commercial customers. The last town gas appliances in the country were converted in Edinburgh in September 1977. Many of the obsolete gasworks were subsequently removed, although some gasholders (the large, circular storage facilities in towns) were used to store natural gas. However, many have been disused for years and the toxicity of the sites can make re-use problematic. Transco intends to remove them all by 2009, although some have now been listed as important industrial heritage sites.



An annual survey compiled for tax purposes beginning in 1967 revealed only 1,000 offshore workers but by 1978 this had peaked at 12,500. This figure only included those who worked on rigs and platforms; from 1980 the survey included workers on pipe-laying vessels, crane barges, supply vessels etc and the number of offshore workers immediately doubled. The peak for the expanded group was in 1990, with 36,500. Since then, in a twin drive to reduce both costs and the likelihood of another disaster on the scale of Piper Alpha, the number of offshore workers has been in general decline, notwithstanding the occasional 'blip' when a new field comes into production. In 1998, almost 7% of jobs in Scotland were dependent on the oil and gas industry either directly or indirectly (e.g. supply chain, contractors). This has decreased almost year-on-year, but there are still hundreds of thousands of people whose livelihoods depend on activity in the UK Continental Shelf.



Frigg, as one of the first, largest and longest-producing fields, had an important role in these changes. Frigg provided a third of the UK's gas requirements in the 1970s and 1980s. By comparison, in 1998 the UK's largest producing field, Morecambe South, produced only 8.6% of the UK's requirements.