The final redetermination, 1995-98

How Håkon Lavik experienced this process

Redetermining interests in an oil field is a struggle over positions and power, with prestige and money naturally lurking in the background. Each company adopts the standpoint it feels will give it the best return. Keeping its cards close to its chest is also important, because the process can have different outcomes.

The Statfjord unitisation agreement prescribes that the operator, Statoil, will present its assessment of the division of interests between Norway and the UK within three months of the data cut-off date. It specifies that all the partners will participate in this work, and that a dedicated committee will be established with technical sub-committees which hold a number of working meetings.

But it is obvious that when one grouping – in this case the three British licensees – wanted an increase in the UK share and the other – the Norwegian licensees – did not wish to surrender any part of its holding, achieving a good collaboration would be difficult. In addition to their official efforts, both groups worked unofficially to generate information and arguments which supported the aim of a change – or no change – in their favour.

Statfjord A under construction. Photo: Odd Noreger

Unitisation

Chevron UK Ltd submitted a request on 28 April 1995 for a new redetermination of equity interests in Statfjord. The background was that, when this field was proven in 1974, it quickly became clear that the reservoirs extended across the dividing line between the Norwegian and British continental shelves. How the reserves are distributed between the two countries is crucial for determining the share of production which belongs to each nation and each licensee. Statfjord is one of the largest oil fields in the world, and even minor changes in the distribution of its resources would have huge financial consequences.

Once the field had been mapped, it was unitised in 1976 – that is to say, agreement was reached between the two countries on jointly developing and producing the reserves. The Statfjord Unit was created, with the Norwegian and British licensees agreeing to produce the field as a single entity. The two licensee groups had their original licence interests adjusted by the percentage division between the two countries to determine their holdings in the unitised field. Norway was estimated in 1976 to have 88.88 per cent of Statfjord, with the UK's share at 11.12 per cent.

Redetermination

Fixing such a division between the two countries is no simple matter. The reserves lie in reservoirs 2 500-2 900 metres beneath the seabed. How these formations are structured and how the oil and gas are distributed within and between them is carefully assessed, but nobody knows the exact answer. Reservoir evaluation is at best advanced guesswork, and the answers obtained can differ widely. Conclusions depend on the eyes which see and the desired results.

A lot of data had to be looked after on Statfjord. Photo: Odd Noreger

It was quite clear that the preliminary allocation of 88.88 per cent to Norway in 1976 would be altered, and the unitisation agreement for Statfjord contains detailed provisions for a redetermination – in other words, a new assessment of how the reserves are distributed. It was decided in 1976 that the first such process would take place before production began on Statfjord and subsequently at certain specified times.

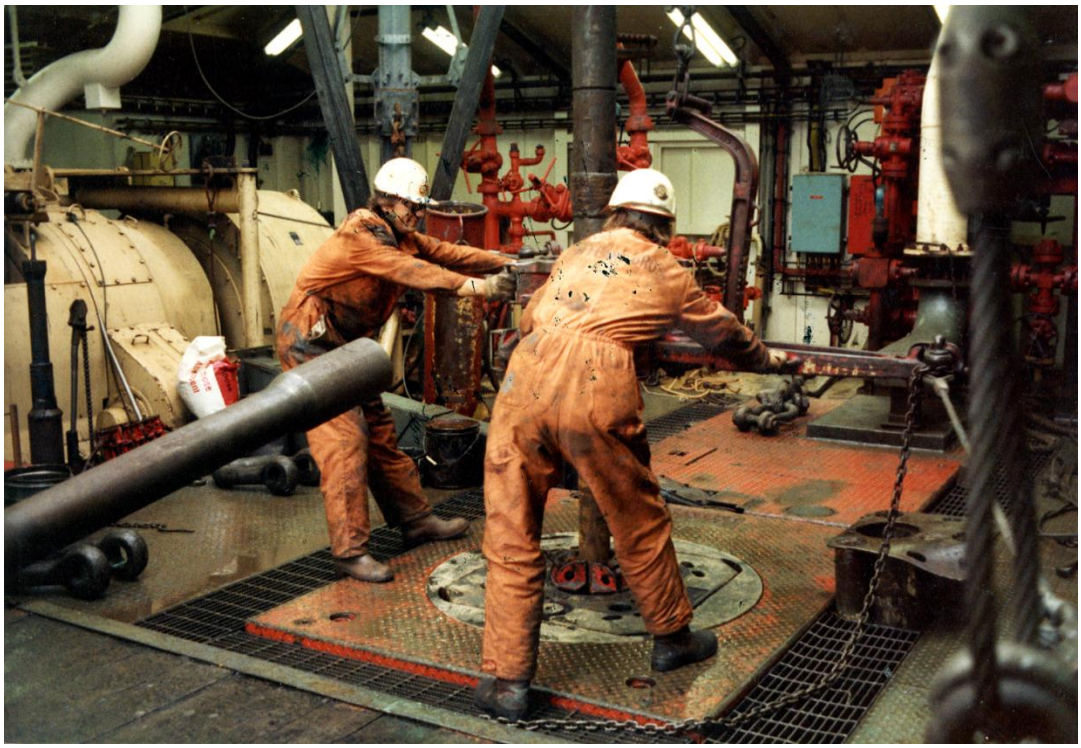
To appreciate why such a division assumes such importance, it must be borne in mind that all investment in platforms and equipment is allocated in accordance with the proportionate holding of each licensee, while revenues from oil and gas are similarly shared out. The larger the Norwegian share in the field, the larger the earnings for the Norwegian licensees and for the government, which taxes the profit. Similarly, an increased UK share means that bigger revenues fall to the British licensees and government.

Since it is impossible to obtain a mathematically “correct” and unambiguous answer, such divisions of interests are always a source of substantial conflict. The various Statfjord licensees have displayed great creativity at times over the definition of the reservoirs and their properties in an attempt to secure the share they want.

To understand the value involved here, it needs to be appreciated that a one per cent change in the division of interests is worth NOK 3.5 billion at the 1995 oil price and dollar/krone exchange rate. So the figures after the decimal point also meant a lot. The UK licensees estimated a change in their share of the field from about 14.5 per cent to roughly 17 per cent. That represented a change of NOK 9 billion in 1995 money in their favour. It is also important to realise that, in the event of any change, all investments and revenues would be readjusted back to day zero, so that the licensees would secure the “right” expenses and revenues in relation to their percentage holding in the field.

Norwegian Statfjord share cut in 1979

A redetermination of equity interests was undertaken ahead of the start to production on Statfjord in 1979. After lengthy discussions, the Norwegian share of the field was reduced to 84.09 per cent. Giving the British 15.91 per cent, this represented a dramatic change in relation to the original estimate, and it is difficult to explain why the Norwegian share was reduced by such an amount in 1979.



Drilling on Statfjord A. Photo: Odd Noreger.

At the same time as the division of interests was redetermined, both recoverable reserves and total stock tank oil originally in place (Stooip) in the field were reduced. The largest proportionate reduction was on the Norwegian side. This has subsequently proved to be an error.

What motivated the Norwegian licensees to accept such a change in the UK's favour has been the subject of much speculation. It is difficult to see the technical reasons for the reduction. The truth probably lay on two levels.

First, agreement had to be reached on the division of interests in order to get production started. The British claimed that every scrap of potential had been included in the original 1976 determination. A quantity of these reserves, to the east and north, were removed from the calculation base because they had not been formally proven through drilling at that time. All these reserves were on the Norwegian side.

Second, the reservoir model which was further developed by Mobil in 1977-79 was probably very conservative. This meant that the top of the reservoir was moved westwards – in other words, in the UK's favour. Aware that additional redeterminations would occur later, Mobil recommended that a substantially lower Norwegian share should be accepted.

I can remember people in Statoil remarking sourly that Mobil as operator accepted this outcome in order to curry favour with the British authorities. The US major had just joined a UK working party to study a gas-gathering pipeline from east of Shetland to St Fergus. Statfjord played an important role here.

By 1979, Mobil's reputation in Norway was pretty low as a result of delays and cost rises for Statfjord A and B. Statoil seriously doubted the operator's loyalty to Norwegian interests, but had no technical grounds for rejecting the proposed division of interests. What happened in the 1979 redetermination made Statoil's management even more determined to take over the Statfjord operatorship as quickly as possible.

No changes were actually made to the division of interests in the field until 1991, but a lot of drama had been played out in the meantime. The technical reservoir assessments made during the first two-three years of Statfjord production aroused suspicions that the

division of the field might be wrong. But the priority was to get Statfjord B and C on stream and to secure more production data from the whole field before a redetermination took place. That was the attitude of the Norwegian licensees. As early as 1985, however, their partners on the UK side requested a redetermination. They maintained that the British share should be increased.

The events which followed make an odd tale, so odd that one can only conclude that reality is sometimes much stranger than fiction.

Spinning out the 1985-89 redetermination

The work carried out at the start of the redetermination in 1985 quickly made it plain to the Norwegian licensees that the outcome was likely to be that they rather than the British would have their share increased. The UK side could not accept that. When the operator presented its assessments in the later summer of 1985, it proposed that the Norwegian share should be raised to roughly 88 per cent. That unleashed a storm of protests from the British licensees. Complaints and comments were fired off by telex to everyone concerned, demanding new meetings and discussions.

This was the first time a redetermination had caused a conflict in the partnership, and considerable uncertainty prevailed about how to deal with it. The redetermination rules in the unitisation agreement were not followed – the agreement was set aside while the two sides fought tooth and nail over details and the most fantastic problems. The British side kept arguing that more time and additional data were needed, and that new assessments had to be undertaken. All timetables were breached.

For their part, the Norwegian licensees tried to the best of their ability to spin out all the British demands. This turned into a veritable war of nerves, where accusations of skulduggery became an everyday occurrence. The UK side frequently complained that it failed to get the information requested, with the unstated implication that details which could increase the British share of the field were being suppressed by the operator. Some of these accusations might also have been justified.

The best story concerns a number of well logs which had only been provided after a considerable delay, and the following explanation was given for this. Well logs have a special format, so Statoil had ordered special boxes designed to accommodate them. But the manufacturer unfortunately turned out to have used the wrong dimensions, so that these containers did not match the log format and could not be used.

Rather than damaging the logs, Statoil accordingly had to order new boxes. This had unfortunately taken extra time, which was regrettable. When the right packaging finally arrived, an accident occurred while the boxes were being loaded – a pallet had fallen from the back of a lorry. A number of the boxes had been harmed and some had also suffered water damage. The logs in the latter were in such poor condition that they could not be dispatched.

Since everyone was entitled to receive the same information simultaneously, a further wait was necessary until new copies of the damaged logs had been obtained. That also unfortunately took time. But everything had been done as well and as quickly as possible so that the partners were sent data of the quality they required … Although some of the licensees may have had their suspicions, it was difficult to refute such explanations. So they were reluctantly forced to accept that such things could happen.

All the Statfjord partners worked hectically throughout the process. From the spring of 1985 until February 1989, 60 meetings were held over a total of 150 days. One set of minutes after another from these meetings showed that the British constantly demanded more and more details and thereby span out the need to take a position on the Norwegian claim for an increased share. For their part, the Norwegian licensees dragged out the delivery of information requested by the British as best they could.

It goes without saying that the climate of cooperation was unlikely to be particularly good in such circumstances. And the outcome was that the partnership was as far from agreement at the beginning of 1989 as it had been in the spring of 1985. All the quarterly meetings of the Statfjord Unit Operating Committee (SUOC) during this period heard that work was under way on the issue, that more time was needed, that conclusions could soon be drawn and so forth.

However that may be, no clarification was ever achieved. A crossroads was reached in the early spring of 1989, when almost four years had passed. The question then was whether a demand should be made to have the issue settled by an expert, as specified in the unitisation agreement. That prompted a quarrel over whether there was any point in submitting the issue to an expert. So much had happened in the meantime that it was perhaps just as well to forget the whole business.

Since four years had passed, a new redetermination could be demanded by 30 April 1989 at the latest. The time had come for drastic action. Perhaps a political initiative was in order? The issue was raised in the British House of Commons by energy minister Peter Morrison, who accused Norway – and Statoil in particular – of dragging out the whole business and sabotaging a clarification of the division of interests.

This was a very interesting claim, since the British partners had spent four years demanding more time to secure the solution they wanted and had, from a fear of losing shares, used every means at their disposal to prevent the Norwegian side from getting its arguments across.

Morrison also argued that the discussion on the division of interests should be removed from the technical specialists and determined at political level by the two countries. The time for a decision had arrived, and the governments should sort it out for themselves.

The accusations of delay and sabotage by Statoil and the Norwegian government were quickly dismissed as unreasonable. Minutes were available from all 60 meetings as well as from all the SUOC meetings. These had been approved by the partners. That the British were the ones who had dragged things out could be swiftly documented. The initiative in the House of Commons fell equally quickly by the wayside.

Far more surprising was that a British energy minister had called, in parliament, for a solution to the issue through a process which was and is directly contradictory to the treaty of 16 October 1979 between Norway and the UK over Statfjord, as ratified by the parliaments of both countries in 1981.

This treaty is binding on the two nations under international law, and both governments are thereby required to respect its provisions. But Morrison had scant regard for such bagatelles. In his view, if Britain failed to get what it wanted within the regulations, the latter should be ignored.

A number of assessments were made during 1985-89 to find a way of moving the process forward so that the redetermination could be concluded. Since the UK side was spinning out the issue because it foresaw an unwelcome result, the question was how the Norwegian licensees could secure a resolution in their favour. All the regulations in the unitisation agreement were observed, apart from the timetable, without result.

However, the agreement stipulates that the licensees can unanimously agree on how much time is to be used. They also agreed not to submit the issue to an expert because that would further delay a decision. Although a discussion on a possible decision by an expert was supposed to take place in October-November 1985, it did not begin until the end of 1988. By then it was too late.

The Norwegian government considered whether it should utilise the dispute resolution mechanism in the treaty, but resisted the idea. These provisions are sufficiently dramatic that this was no easy decision to take.

They require a declaration that the partnership has failed to reach agreement, that other means of settling the issue have not succeeded, that the authorities for their part see no resolution either, and that the government at national level therefore wishes to use the arbitration tribunal specified in the treaty to resolve the issue.

This does not involve using international mediation bodies or courts, but establishing a separate tribunal to hear the parties and reach a judgement. For Norway to demand that the British government should agree to settle the dispute by arbitration, after the efforts to reach an agreement had failed, would have required both courage and decisiveness.

The UK was, after all, a Nato ally, presumably a friendly country and an important trading. Its continental shelf was an important market for the Norwegian oil service industry. Since the consequences of an arbitration procedure could quickly have become complicated, the Norwegian government hesitated to take such a drastic step.

Expert decision

An appreciation eventually crystallised that it would perhaps be just as well to bury the whole 1985 process quietly, without reaching any form of conclusion, and move on. In late April 1989, the British accordingly called for a new redetermination process in line with the provision that such a request could be made every four years.

This course of action was adopted because, as time passed, the data on which a possible 1985 redetermination might be based became outdated and thereby irrelevant. By demanding a new process, both new and updated information would provide the basis for the new assessment which was thereby begun.

The lesson Statoil had learnt from the four years which had passed – and which had created antagonisms and conflict in the partnership and made collaboration distinctly uncomfortable – was that the next process must follow the terms of the agreement to the letter, and not be allowed to become a long-drawn-out affair.

While the actual assessment in 1989 was unproblematic, it resulted in the Norwegian licensees again demanding an increase in Norway's share of the field. The British naturally protested against that. Agreement was thereby impossible, but on this occasion a call was made to submit the issue to the decision of an expert.

The latter was selected in accordance with the prescribed procedures, and the name submitted to the Norwegian and British governments for approval. That once again took time, and doubts even arose over whether the chosen expert would be approved. But it became clear in March 1990 that approval would be given, and the assignment was awarded to the US consultancy DeGolyer and MacNaughton.

According to the rules in the unitisation agreement, such a job must be done within three months. It was clear to the Statfjord licensees that this was far too short, and they all agreed to give the expert more time. In this way, however, the conflicts were lifted out of the partnership and more "normal" relations became possible in managing Statfjord.

On 9 April 1991, DeGolyer and MacNaughton was ready to present what was termed a preliminary assessment. This found that the Norwegian share should be increased by 0.24 per cent. Once the expert has presented its preliminary proposal for a division of shares, each licensee has the opportunity to comment on or protest against the assessment. All the parties must be informed about such comments, and they can also comment on all the comments from the other licensees.

When reviewing the expert's assessments, several of the companies saw that an error had been made. The expert also recognised this. After correcting for this, the increase in the Norwegian share was raised to 1.115 per cent. That decision was submitted by the expert on 6 August 1991 and came into force on 1 September 1991.

This came as a shock to the British and particularly to the UK Department of Trade and Industry (DTI), which had been told to expect a higher share for Britain and now found that it was actually reduced.

To appreciate how dramatic this actually was for the British government, it must be appreciated that the UK share of roughly 15 per cent in Statfjord ranked at the time as the fourth largest oil producer on the country's continental shelf. A contraction of this holding, with the prospect of a significant reduction in Britain's share of Statfjord production over two years in order to return the excess oil volumes received since 1979, would also mean a considerable reduction in UK tax revenues.

Tim Eggar, then the energy minister at the DTI, held a meeting with the British Statfjord licensees in the autumn of 1991 to sort matters out and to discuss the position. That is to say, the companies were more or less taken to task by Eggar and had to explain what had gone wrong.

This meeting concluded that the three UK licensees felt they had been stripped of interests in error, but that this would be rectified at the next opportunity. It was possible to call for a new redetermination in 1993. The upshot was that both the Norwegian and the British governments approved the new division of interests in June 1992.

The adjustment process had begun as early as September 1991. Historical investments were reallocated through a one-off payment from the Norwegian licensees – whose share had increased – to their UK counterparts. A plan was established from 1 September 1991 for reallocating historical oil production to bring volumes in line with the new division of interests by 31 August 1993. During this two-year period, the British licensees received about 11.9 per cent of total Statfjord production compared with their holding of 14.76 per cent.

Preparations for a new round

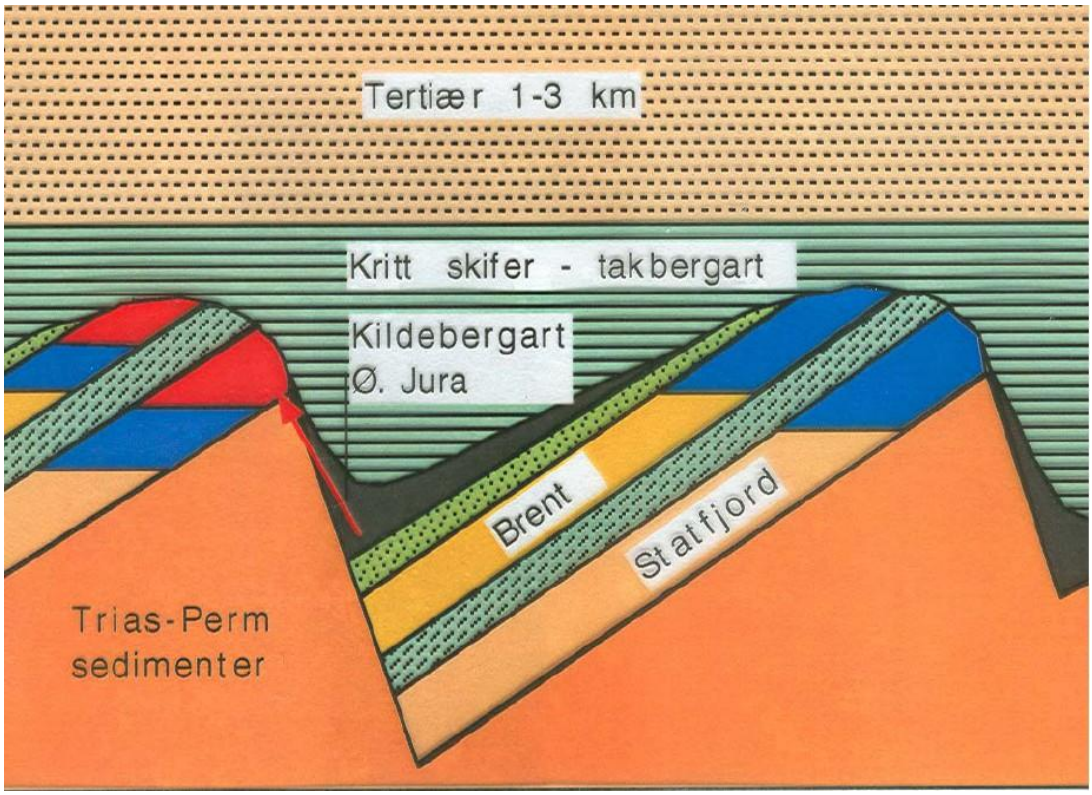
A new process could be requested in 1993. Preparations for this new round began in the autumn of 1992, but it became increasingly clear during the following spring that the painful and fairly demanding processes which had been continuously pursued ever since 1985 were so fresh in people's memories that there was little enthusiasm for another round. It was too soon after the conclusion of the previous process in 1991-92.

New three-dimensional seismic surveys had also been shot in the Statfjord area during 1991 and early 1992 to improve base data for mapping where the remaining oil and gas in the field were actually located. Interpreting this material and incorporating it with historical data would be time-consuming, and the licensees could not receive the conclusions early enough to meet the deadline for a new redetermination process in 1993.

Another consideration also entered the picture. Although the unitisation agreement provided opportunities for a redetermination process right up to the cessation of production from the field, the point was approaching in Statfjord's producing life where the British licensees would not have sufficient resources left to repay their Norwegian partners if significant changes were made in Norway's favour.

As a result, a two-fold solution was proposed. The next redetermination process would be postponed until 1995, and would be the last where Statfjord was concerned. This was unanimously approved by the partnership on 29 April 1993 and the unitisation agreement was amended accordingly. The Norwegian and British governments actually failed to approve this decision until 15 March 1995 without that having any practical significance. The effect was that the next process was postponed by two years.

One reason for the delay in approving these changes was that the provisions on redetermination in the unitisation agreement were also copied in the Anglo-Norwegian Statfjord treaty. As a result, this bilateral accord had to be amended – and that was no straightforward matter.



The Dunlin formation lies between the Statfjord and Brent formations. This diagram of Statfjord's geology is taken from a presentation by Knut Bjørlykke.

To begin with, both the Norwegian and British governments thought that any amendments agreed would have to be submitted to the parliaments of the respective countries for approval. Agreement was eventually reached that this would not be necessary. The change could be reflected in an exchange of notes.

This process had been completed in March 1995 and all the formalities were in order. As a result, the outcome of a redetermination process which was able to begin in 1995 would also freeze the distribution of reserves between Norway and the UK for all time. That would mean the end of distressing disputes over the division of interests in Statfjord.

But another development occurred before work could begin on a new redetermination. As early as the 1976 unitisation, it had been known that Statfjord consisted in reality of three reservoirs – the Brent, Dunlin and Statfjord formations. The first and last of these are the most important, and production had started with them.

Dunlin had already been described in 1976, and provisions were included in the unitisation agreement adopted in that year on how this formation should become part of the reserve base for Statfjord. Following the 1991 redetermination, it was clear that planning would have to begin immediately to achieve a sensible production of Dunlin reserves within a reasonable time and while Statfjord's profitability was still good.

An agreement was accordingly negotiated between the British and Norwegian licensees that, if production started from Dunlin, its reserves would be included in the reserve base from 1 July 1994.

As it happens, the Dunlin formation is not a particularly good reservoir in the Statfjord area and would not cause any major changes to the division of equity interests. It was also clear that the recoverable reserves in Dunlin lay almost in their entirety on the Norwegian side.

Agreement was accordingly reached that Norway's share of Statfjord should be increased by 0.23 per cent from 1 January 1994, from 85.23869 per cent to 85.46869 per cent. Although this was a small change, it meant that the British licensees owed their Norwegian counterparts 6.9 million barrels (1.1 million cubic metres) of crude. This unleashed another two-year readjustment up to 30 June 1996.

So none of the process related to the division of interests in Statfjord between 1985 to 1994 had gone in the favour of the British licensees. Their thinking was that they had a lot to claw back. They had promised to recover their lost shares, and had been preparing for this ever since 1991. From the spring of 1992, they held regular meetings with the DTI to report on their work and build up expectations in the British government that the UK share would be increased again.

Chevron challenges

It was on this basis that Chevron, acting on behalf of the British licensees, called for an increase in the UK share of Statfjord. The company did not make any exact demand for the percentage division, but indicated that it could well contemplate a British holding close to 17 per cent rather than 14.53 per cent.

Moreover, Chevron opted for a new approach on this occasion. Fourteen days before a redetermination could be requested on 30 April 1965, it contacted Statoil and pointed out that changing the division of interests could be an expensive and time-consuming process.

The company accordingly offered to negotiate with the Norwegian partners ahead of the deadline for requesting a redetermination. If agreement was reached on increasing the UK share of Statfjord, an expensive and disruptive process could be cancelled before it began.

Statoil called together the Norwegian licensees immediately. Since the opportunities for a redetermination process had to be considered, the group – like its UK counterpart – had kept a team of about 30 technical specialists busy since the summer of 1994 assessing which direction this might take.

The preliminary conclusions in April 1965 showed that no increase of the UK share of Statfjord was likely. A number of the Norwegian licensees were angered by the Chevron proposal, and it was rejected as inappropriate since the Norwegian side believed that any expansion in Britain's share was unlikely.

Chevron had previously made it clear that, if no agreement on an increased UK holding had been reached by the end of April 1995, it might nevertheless demand a redetermination process in accordance with the agreement. The Norwegian licensees regarded this as a threat, and saw no reason to negotiate under such pressure. Plenty of emotion was shown in their discussion of Chevron's proposal.

So both sides were well prepared when Chevron made a formal request on behalf of the UK licensees for a start to the process on 28 April 1995. Nevertheless, it was uncertain until the last minute whether the British partners would go to this step.

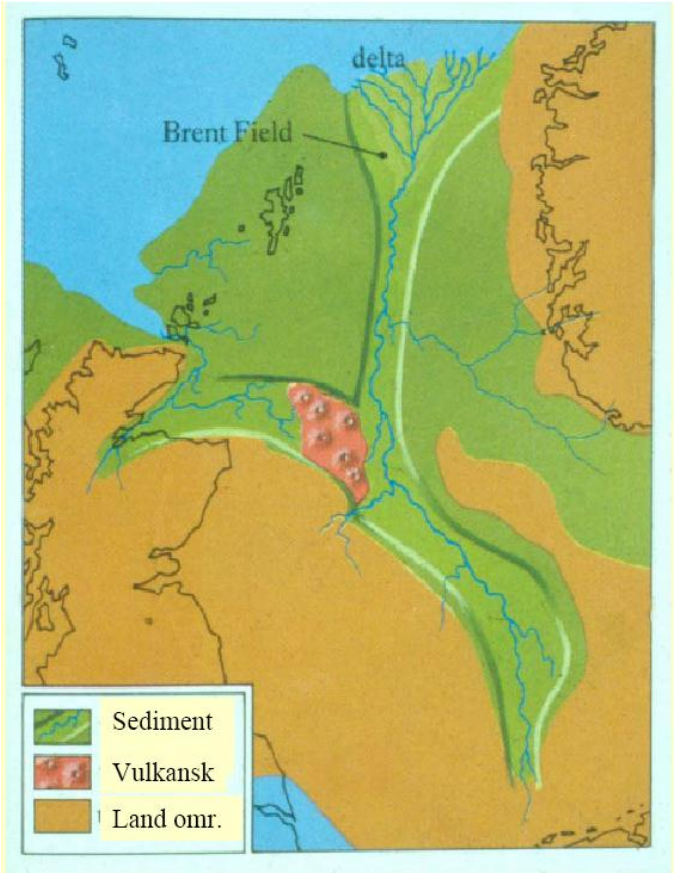
Many on the Norwegian side believed that, since an increase in Norway's share was possible, the British would not risk losing once again. From a technical perspective, this might have been an appropriate thought. But it was almost impossible for the UK side to refrain, given the political overtones of the issue.

A pertinent question is whether any of the Norwegian licensees would have called for a redetermination in any event. Since Chevron had made its first proposal in mid-April, the Norwegian side never got to the stage of reaching a conclusion. As a result, divergent views have subsequently been expressed by the individual Norwegian licensees. A number of people have claimed they would have started the process if the British had not done so. But this is doubtful.

Statoil was in any event not prepared to call for a redetermination, and none of the other licensees gave any indication in the days before 28 April that they were ready to initiate one. Such retrospective discussion is in any case academic.

A redetermination involves the review of all available information in the course of three months. This is not only a formidable balancing act for the operator, with a slack tightrope and a long way fall. But it is also incredibly challenging in technical terms.

The operator must be objective and look after the collective interest. That is not easy. Everything the operator does will be assessed in light of the fact that it is the biggest licensee on the Norwegian side. By definition, the operator is therefore regarded by the British as partial towards the Norwegians. From the opposite perspective, the operator will be criticised for being insufficiently aggressive and for taking too little account of Norwegian interests.



The Brent delta about 170 million years ago. Brent sandstone deposited in this delta provides the reservoir rock for most of the fields in the northern North Sea.
Textbook presentation of the North Sea's geology.

Under these conflicting pressures, the operator must seek to do a scientific job which is well documented and unassailable so that it can withstand attacks should a possible new division of interests be proposed.

An impression of the volume of data involved can be gained by remembering that it embraces 17 years of production history, information from roughly 140 wells, reservoir interpretations, thousands of kilometres of seismic lines and so forth. Before the computer age, this would have taken several hundred people years to process.

All the findings of such work are also subject to further interpretation by whoever is looking at them in order to twist this information in the desired direction. Even with the most advanced computer systems, this is a demanding job.

It is also a contest where nobody has any particular trust in anyone else. Chevron, for example, headed the redetermination work on behalf of the UK partners even though Conoco UK was the operator for the British licence. But Norske Conoco is the third largest licensee on the Norwegian side, so the British partners did not trust Conoco UK to be fully committed to their interests.

However, Conoco UK was allowed to participate in the work on the British side – with the result that Conoco Norge was excluded on the Norwegian side. After all, the two companies had the same parent company, and their personnel moved frequently between the UK and Norway. A few companies on the Norwegian side who had small interests were also excluded from the process, and gave powers of attorney to the operator to act on their behalf.

Nor was it the small companies who quarrelled, either. I have referred throughout to the Norwegian and British sides, as if the disagreements were between Norwegian and British companies. That was by no means the case. The "Norwegian" licensees were Statoil (Norwegian), Mobil (American), Conoco (American), Shell (Anglo-Dutch), Esso (American), Saga (Norwegian), Amerada (American) and Enterprise (British). On the UK side, the licensees were Conoco (American), Chevron (American) and BP (British).

References to Norwegian or British interests and companies relate to the country in which they were a licensee. The point was that the loyalty of the participating companies was to the country where they held their equity interest. The fact that Enterprise was British had no significance for its position as a Norwegian licensee, nor did Chevron's American ownership impinge on its status as a British licensee.

Among the Norwegian partners, Shell, Esso and Mobil were "incidentally" the three largest oil companies in the world and members of the Seven Sisters – the seven oil "majors" who traditionally took the decisions in the oil world once upon a time.

On the UK side, Chevron and BP were also two of the Seven Sisters. The first of these was not originally a Statfjord licensee, but became one through its acquisition of Gulf in the 1980s and merger with that company on a global basis. Gulf had also been a Seven Sister, so that six of the original seven were actually involved in Statfjord. The only one excluded was Texaco, without that having any significance in this context.

The point to stress is that Shell, Esso, Mobil, Chevron and BP, as well as DuPont, which owns Conoco in both Norway and the UK, all rank among the top 10 of the world's largest companies. So they possessed not-insignificant resources, in addition to those Statoil might have, for pursuing a fight over the division of interests in Statfjord.

As if this were not enough, Statoil and BP had entered into an alliance in order to collaborate internationally. In the redetermination context, however, the two were on opposing sides and by and large disagreed vehemently over most issues.

People often forget that the companies which stand behind the Statfjord licensees are very international, and that Statfjord is a very international and at times complicated operation.

The final redetermination kicks off

The unitisation agreement for Statfjord specifies that, if the process begins on 1 May, the operator will base its work on the data available at 31 May, and that all information acquired after this date is irrelevant and will not be significant for assessing the division of reserves. The operator then has three months to present its proposals – in other words, by 31 August.

Activity in the summer of 1995 was accordingly very predictable. Regardless of what the operator did or proposed, the level of scepticism in the partnership was very high. If the operator then asked the partners for alternative proposals, nobody had any other ideas. None of them wanted to reveal their hand.

Some of the Norwegian licensees participated in the work done by the operator on behalf of the whole partnership. This was partly because they had been involved in the working party which had assessed whether the Norwegian licensees should request a redetermination. But their involvement was also intended to provide a broader professional basis in most of the areas covered.

At the same time, several of the Norwegian licensees were pursuing an independent assessment of the demands they should submit for an increase in the Norwegian share. A number of the specialists on loan to Statoil's team from Mobil, Shell and Esso were simultaneously working on alternative models. That created some working difficulties at times. It was not always easy for individuals to know where their loyalties lay, but the process went by and large smoothly.

The assessments presented by Statoil on 31 August indicated an increase in the Norwegian share from 85.47 per cent to 86.98. This hardly came as a shock to the British side, but was undoubtedly at the upper edge of what they had considered possible. They gave immediate expression to great disappointment, and rejected the operator's assessment. They once again refused to produce any specific figures, but continued to assert that they envisioned a substantial increase in the UK share.

After Statoil had submitted its evaluation, the licensees had the opportunity to reject, accept or comment on the work done. The three British licensees by and large rejected it all, while the Norwegian side opposed Statoil's assessments and protested at the amount of oil allocated to the UK side. Mobil, Shell and Esso criticised Statoil for interpreting the data too negatively for the Norwegian interests, and maintained that an even higher share should have been proposed for Norway.

The unitisation agreement prescribes that, after a period for comment, the parties must negotiate and possibly concur on a division. Given the starting point, securing agreement in the partnership looked fairly hopeless. The British unwaveringly maintained their view that they would only be satisfied by a substantial increase in their share.

While Statoil also stuck to its position, it saw that the minimum acceptable solution for the Norwegian side was no change to the prevailing distribution. Although the other Norwegian licensees expressed a desire for a significant increase in their share, several of them were ultimately prepared to accept the status quo.

As long as the British could not accept such an outcome, however, no hope of agreement existed. To provide an indication of the value at stake, an 0.1 per cent change in the licensee distribution had a present value of NOK 350 million in 1995 money. The gap in expectations accordingly represented some NOK 17 billion in 1995 money.

The unitisation agreement allows 30 days for negotiations. If no agreement has then been reached, any of the parties can demand that the redetermination be decided by an independent expert. This means that the negotiations cannot be extended, perhaps as part of a delaying tactic.

Statoil proposes the status quo

It quickly became clear to Statoil that conducting talks in a bid to reach agreement would serve no purpose. The gap in expectations between the two sides was four-five per cent, and bridging such a wide span would be difficult. After first holding a review with all the partners about how unfortunate it would be if the partnership ended up in a conflict, Statoil proposed as the next step that they shelve the whole process and leave the division of interests unchanged.

Statoil also urged the partners to display a spirit of unity, and pointed out that a conflict on the division of interests would not only damage mutual relations but also be expensive and would do nothing for value creation in the partnership. It urged the partners to

devote their resources instead to cooperating over improved oil recovery and thereby increasing revenues for all.

The company accordingly asked each licensee to think carefully through the consequences of a conflict for Statfjord. After giving them a deadline of a few days, Statoil requested a vote on whether the status quo could be accepted. Such a decision had to be unanimous.

Statoil was no means certain that its proposal would meet with universal support. The most likely outcome was that some of the partners would cast a negative vote regardless. So the company launched an internal discussion on how such a ballot should be conducted.

Since the redetermination process would continue if some of the partners rejected an unchanged division of interests, it was important that none of them knew who had voted for what. A vote had to be either oral or written. An oral vote was quickly ruled out, since all the partners would then know everyone else's position.

But a written ballot would require somebody to count the votes. Even supposing the partners could jointly agree on who they trusted to carry out the count, and appointed them, these tellers would know the division of votes – in other words, the number of ballots for or against. A number of inferences could be drawn from such knowledge.

In Statoil's view, it was extremely important that the tellers did not come from the operator so that the latter could not be accused in retrospect of knowing what had happened. Moreover, the motion the partners were invited to vote on had to be so clear that no doubt could exist over what had been decided.

The question was formulated as simply as possible: could the partners accept that no change was made to the division of interests between Norway and the UK on the Statfjord field?

The vote

Before the meeting, Statoil asked all the partners to be prepared to cast a written vote in a sealed, neutral envelope. The ballots would be counted by a neutral external teller, who would then inform the partners whether the motion had unanimous support. Exactly similar envelopes and identical blank ballots were secured.

To ensure that the vote was conducted in appropriate form and could be verified by an "impartial" body who also acted as teller, the Stavanger district court was asked to provide an official who could count the ballot papers and subsequently destroy them. The court had never previously been asked to undertake such a commission, but agreed to act as an impartial body after the context had been explained.

The ballot meeting took place on 12 October 1995. Nobody had any objections to the voting procedure. Kåre Røsandhaug, head of Statoil's Statfjord division and chair of the SUOC, gave an introductory speech in which he urged the partners to show responsibility and to think of the best solution for Statfjord, ballot papers and envelopes where handed out. The partners took it in turns to enter an adjoining empty room in order to record their vote on the ballot paper, place it in the envelope and then hand it to the assistant district judge acting as teller.

When everyone had voted, the latter left the meeting, counted up the votes and destroyed the ballot papers. He returned to the meeting and announced with regret that the vote to leave the division of interests unchanged had not been unanimous. The judge had

been carefully instructed not to reveal anything about who had voted for or against the proposal, and only to report whether there was unanimity or not. The outcome was that the proposal to stick with the status quo had been defeated, and that the redetermination process would have to continue. So the partners were back where they started.

However, something more happened at the meeting. The British partners – instead of taking the vote particularly seriously – had regarded the Statoil proposals as a stage in the process. They thought it would be possible for them to present other proposals or views at the same meeting. BP accordingly asked for the floor and said that it wished to present some views on the background to the British arguments for a larger UK share of Statfjord.

The reaction of the Norwegian licensees was uniformly negative. They did not want to listen to any presentation from BP. The meeting had been called to decide whether it was possible to put an end to the whole redetermination by supporting a proposal to make no change to the existing division.

Since the Statoil motion to that effect had not received unanimous support, the Norwegian licensees were not prepared to be presented with other views or arguments. This was not a negotiating meeting. BP was accordingly obliged to put away its papers and failed to obtain an opportunity to present its views or a justification for being unable to accept the status quo.

Chevron proposes a symbolic increase in the UK share

After the ballot meeting, a few days still remained before the deadline for negotiations had expired. Time might still be available for a few unofficial soundings. Informal contacts between Statoil and Chevron revealed that a compromise might be possible. Chevron's basis was that it must be possible for the Norwegian licensees to accept a "symbolic" increase in the British share. To ensure that it had backing for such a plan, Statoil's Statfjord organisation contacted its negotiating team – comprising Mobil, Shell and Esso – and sought clarification from its own senior management.

The latter could accept a few tenths of a percentage point increase in the British share. After much toing and froing, the Norwegian licensees decided it could be worth a try, A "secret" meeting was agreed in Aberdeen. It might be possible to concede 0.1-0.2 per cent.

The reason the meeting was described as secret was that, if the attempt failed, it had never happened. It quickly emerged during the discussion that even a willingness by the Norwegian side to concede such a minor increase was too little for the UK licensees. They had undoubtedly expected at least 0.5 per cent.

There was also some lack of clarity about how far the Norwegian licensees were willing to go. Both Mobil and Esso had problems in accepting any increase at all in the British share, but Statoil decided that, if the matter could thereby be decided, these two companies would undoubtedly accept a proposal for a minor increase on this scale. The gap was nevertheless too wide, and the British side could not accept an 0.2 per cent increase in its share as a sufficient for a symbol. So the meeting was without result.

In parallel with the process in the partnership and the unofficial soundings, Statoil had assessed on its own initiative the options which might be implemented. It looked as if the partnership would fail to reach a solution. One option was to raise the issue up to the corporate management level, and for Statoil and BP possibly to propose a top-level solution via their alliance. The two companies could then stand by this and pressure the rest of the partners to accept it. However, it was felt that the time was not yet ripe for such an approach.

Secret meeting

Another solution considered was a “whisky” meeting. This would involve the managements of Statoil and Chevron meeting over a glass of whisky and deciding that so little divided the partners that a compromise both sides could accept would be celebrated with a toast. The two companies would have backing in advance from the other partners for a judgement of Solomon. But the time was not ripe for that either.

Following Statoil’s proposal to stick with the status quo, however, agreement had been reached that none of the parties would initiate the next phase of the process until 20 October. After the unsuccessful “secret” meeting, Statoil had informally contacted BP to sound out the position of the three British partners.

It emerged from this that both BP and Conoco UK could contemplate accepting an increase in the British share smaller than 0.5 per cent. Chevron’s position was more uncertain. On that basis, Statoil decided on its own account to hold a new “non” meeting in Aberdeen. This took place in the bar at the Marriott Hotel, where Steve Wilson from Chevron and Ray Hall from BP met Røsandhaug. The venue was chosen to avoid it being registered anywhere.

Statoil proposed that the Norwegian side could accept an 0.25 per cent increase in the UK share, providing this was accepted by the latter before 20 October 1995. Although the company had not cleared this offer with its Norwegian partners, it was convinced that it could secure their acceptance. This “non” meeting made it clear that the British might be willing to accept 0.4 per cent.

That left the two sides 0.15 per cent short of a deal. Statoil had to accept that this was too much for the Norwegian partners to accept. One might then ask why it was not possible to close such a small gap. The answer is that 0.15 per cent had a present value in 1995 of NOK 450 million, and that this was a big sum – too big for the Norwegian side to be willing to accommodate.

The Marriott Hotel Aberdeen, where the secret negotiations took place.

The reason these meetings were also kept secret was that the governments involved, and particularly the DTI in London, needed to remain ignorant that they had taken place. But the Norwegian partners breached a barrier through these confidential exchanges, in acknowledging that they could a accept a symbolic increase in the British share of Statfjord.

This was naturally because it was uncertain what would happen down the road. The issue could drag on for a long time and end up with an expert who, the Norwegian side feared, might find in favour of the British. On the UK side, the companies undoubtedly expected to obtain a bigger change and would sooner take their chances on following the expert route. That was admittedly a calculated risk, but they undoubtedly considered that their chances were better than 0.25 per cent.

The negotiations accordingly failed because all the options open to the partnership had yet to be exhausted, and because of a conviction that the expert option could be better than accepting 0.25 per cent.

Statoil accordingly did nothing in the days immediately before 20 October, with an offer made to the British at the secret meeting which would expire at the point when one or more of the partners called for the matter to be submitted to an expert. The conclusion drawn by Statoil was that either 0.25 per cent was acceptable or there was nothing for it but to move into the next phase.

Assessment of experts

This stage involved the choice an expert. The whole process for appointing such an "referee" is prescribed in the unitisation agreement and the Anglo-Norwegian treaty. But the procedure says nothing about who is qualified to serve as the expert. In parallel with their actual redetermination work, both sides had therefore been busy identifying possible experts and qualifying relevant candidates.

A large number of companies actually exist which make their living to some extent from resolving such disputes or who accept such assignments in addition to their regular business. Statfjord is a little special in that it is shared between two countries. But fields are often split between two or more licences in one country, raising the same issues of how large a proportion of the reserves are located in each licence and whether these should be produced as a single unit.

Unitisation in an oil context originated in the USA. Under the US legal system, a landowner also has the rights in principle to everything on and under their land – all the way to the Earth's core. In the old days, anyone who discovered oil in a specific place secured ownership of the adjacent properties or permission to drill from their owners, and then competed with their neighbours to produce the reservoir as quickly as possible. A number of the big oil fields discovered in earlier times were damaged in this way, and a lot of oil remained in the ground because the field was drained too rapidly.

After a fundamental discussion in the USA during the 1920s, it was decided that unitising interests in a complete discovery – with wells positioned optimally for draining its reserves – could recover substantially more oil than would otherwise be the case. The first agreements on such unitised recovery were established in Texas during the early 1930s.

In turn, as the scope of such deals expanded, a number of companies with geoscientific expertise were created to participate in the unitisation of fields or to settle disagreements on the division of reserves and other issues. Although many such consultancies do not necessarily survive for long, are merged and so forth, three-four dozen possible experts of this kind exist worldwide. A number could be eliminated at an early stage, primarily because they were too small to take on a job the size of Statfjord, but there were still plenty left.

By the early autumn of 1995, the assessment of possible experts had come so far that a list of candidates could be established. Those regarded as possible by either the British or the Norwegian sides were visited and interviewed. It was also interesting to see whether those the Norwegians talked with had been contacted or visited by the British. The procedure in the unitisation agreement specifies that a consultancy must have no conflicts of interest if it is to undertake the job of independent expert. Possible clashes of this kind were assessed.

Another important aspect of this evaluation involved trying to define what a conflict of interest might actually comprise. The concept is not necessarily unambiguous.

One attempt, initiated by Mobil but which all the Norwegian partners could support, involved issuing an announcement to all the Statfjord partners in the middle of the negotiating phase that, were it relevant to propose an expert for the Statfjord redetermination, candidates which could be considered to have conflicts of interest should be avoided. For this reason, British or Norwegian companies (Norway has several consultancies which could have done the job) should not be proposed as candidates.

Mobil's action had two purposes. First, it was clear that the UK licensees would be inclined to nominate a British company. Second, there was a desire to avoid putting forward candidates who could be regarded as provocative by the other side and thereby have little chance of being accepted by the latter.

But simply starting such a discussion was considered provocative. The British partners responded very curtly that they could not accept discrimination against candidates on the basis of their national origin. That was unheard-of, they snapped. They had to be free to nominate the best expert regardless of nationality.

Although the Norwegian attitude was repeated orally at the operating committee meeting held immediately afterwards, the British licensees stuck to their guns. The Norwegian side then announced that, if the UK partners insisted on this, they would feel free to nominate companies in Norway. That provoked the British licensees even more.

Contest over nominating the expert

This was the status of the expert issue when the deadline for a negotiated settlement expired on 20 October 1995. The procedure for requesting the appointment of an expert is straightforward. Whoever requests such an appointment must simultaneously nominate a candidate for the job. Chevron made the request on 20 October and submitted Britain's Scott Pickford Group as the nominee of the UK licensees.

If the Norwegian licensees had not felt provoked before, they certainly did now. The whole discussion on excluding British and Norwegian candidates had been initiated precisely to eliminate companies such as Scott Pickford, and the UK licensees had been made aware of that.

Once again, the reason for the Norwegian position was clear. The most important clients for the type of consultancies which could undertake such assignments were naturally the oil companies. Geographical proximity meant that they were used by the subsidiaries of the international oil companies in the relevant country.

Scott Pickford was used by operators on the UK continental shelf (UKCS), while Norwegian consultants were hired by the operators off Norway. Moreover, the Norwegian licensees were aware that Scott Pickford had a number of permanent assignments for BP, which was a Statfjord partner on the UK side. That posed a clear conflict of interest.

There was accordingly no question of even considering the proposal. The procedure for selecting the expert presupposed that agreement would not necessarily be reached through such a nomination. It therefore prescribed that the partnership would arrive at a selected expert regardless of what happened.

If the first proposal was rejected, the two sides – Norwegian and British – would nominate a list of three experts in order of preference, with each of these candidates given an appropriate weighting.

These weights are devised in such a way that, if a candidate appears on both lists, the company in question could be selected by adding up the overall weights. However, it is mathematically possible to have an equal number of points even if the candidate is on both lists.

Drawing up such a list is not a simple process. Many considerations must be taken into account in order to achieve the desired outcome if possible. Tactics, evaluating the priorities set by the other side, and preventing an unwanted candidate from accidentally securing the largest number of points and thereby being elected are all elements which must be taken into account.

The simplest solution would be to take a look at the other side's cards. Since the latter will not be showing enough of its hand to reveal how it is going to play it, however, the assumptions made are ultimately decisive.

At the same time, eight companies on the Norwegian side and three in the British camp must agree on their respective lists. The discussion among the Norwegian partners focused more on what the other group would do than on drawing up their own list.

That reflected two aims. The first was to give their top candidate the best possible chance of being chosen, and other was to avoid nominating a candidate who, if it also stood on the British list, would get more points than their first choice.

Consideration was even given to the possibility of not placing the top candidate first on the list, in case it nevertheless appeared among the British trio and would thereby get the most points regardless. It is possible to outmanoeuvre oneself in such a discussion.

Yet another element undoubtedly existed in the Norwegian group – a certain reluctance to take a decision. The outcome of such a nomination could be the appointment of an expert who might reduce Norway's interest in Statfjord, which would mean that the Norwegian licensees had lost the fight. Given the sums at stake, some were not keen to take responsibility for such a list – it was better if others took the decision out of their hands.

As it happened, there was little speculation about the British side's top candidate. Scott Pickford had been nominated once and the British licensees had demonstrated that they were unwilling to take account of possible conflicts of interest. So they would put that company first again. The discussion therefore concentrated on the second and third places, since these had to be avoided on the Norwegian list.

Nor was it particularly difficult for the British to guess who might be put first by the Norwegians. DeGolyer and MacNaughton had undertaken the job in 1990-91, and had down a good job from the Norwegian perspective. At all earlier crossroads where the expert had been discussed, this US consultancy had been top of the Norwegian list. That the previous outcome had been a decent increase in Norway's favour also did no harm. And DeGolyer and MacNaughton were regarded as the best in the world at this work.

The position was that the Norwegians did not want anyone other than DeGolyer and MacNaughton to be the expert. So a rather bizarre little discussion began on whether the second and third places should be filled with such unlikely candidates that nobody had heard of them. This became known as the "Timbuktu discussion" because of the potential focus on candidates in that African city or other exotic locations.

The next step was to consider whether the Norwegian side should abandon its moral high ground by nominating someone who had a potential conflict of interest. The argument was that the British had breached these principles, so the Norwegians were free to do so also and might just as well exploit the opportunity. Both Esso and Shell had moral scruples, while Mobil and Statoil maintained that all was fair in this war. But things threatened to get bogged down because it appeared that nobody would give way.

Mobil then had a quiet word with Shell, and the two quickly announced that they could accept the nomination of Norwegian companies. Esso found itself in a minority of one. Then it suddenly had no further scruples, and also found this to be acceptable.

The company justified its change of mind by noting that it could report home contentedly that it had tried but been left out on a limb, so the majority had taken the decision for them. That was an easier explanation that accepting the burden of preventing unanimity. The way was thereby open for the Norwegian licensees to nominate Norwegian companies in the same way that the British had signalled that they felt free to nominate UK ones.

The next step was to draw up a Norwegian list. DeGolyer and MacNaughton were placed first. It would be followed by two candidates which the British were unlikely to choose. In the accidental or unfortunate event that the UK side managed to nominate one of these, it had to be capable of doing a good job. So that candidate had to come in second place in order to achieve a higher weight in total if both sides accidentally had the same name in third place.

Since the Norwegian licensees considered it unthinkable that the British side would include DeGolyer and MacNaughton on their list at all, a discussion arose about whether this company should occupy first place on the Norwegian list. Statoil argued strongly in favour of this, because the top names would be included in a possible draw should the lists contain six different names. After much discussion, that view prevailed. The Norwegian list accordingly comprised DeGolyer and MacNaughton, followed by Norway's PGS-ERC and Geomatic consultancies.

On the specified day, which was 5 November, all the licensees assembled for an official meeting and the two lists were presented. The British had nominated Scott Pickford first, then America's Netherlands, Sewell and Associates (also regarded as posing a conflict of interest) and France's Franlab-Beicip. The Norwegian side regarded the last of these as a risky candidate because the French were unpredictable and had earlier demonstrated that they could be biased.

This meant that the two sides had achieved the feat of nominating six different candidates. None of the British nominees were unknown to the Norwegian licensees. During their discussions on the lists, members of the Norwegian group had laid bets on which three names would appear on the British list. Two people had guessed all three of the names and won the prize. It turned out later that the British side had also placed similar wagers.

With six different names, no candidate could command a majority and the result was a draw. Rules had also been provided for such an eventuality. The two top companies on the respective lists would now be entered in a draw, but only after a few days in case the sides could agree on a candidate during this period. No such accord was reached.

As a result, all the partners had to assemble in a solemn official meeting for the sole purpose of drawing the name of the winner. This meeting was held at Statoil's Forus West offices in Stavanger on 15 November.

As operator, Statoil was responsible for conducting the draw. Two identical envelopes, each containing the name of the one of the two top candidates, were presented. One of the companies, in this case BP, was requested to select one of the envelopes and read out the name of the chosen company. That proved to be DeGolyer and MacNaughton. The Statfjord Unit had nominated an expert.

The disappointment at this outcome was clearly visible on the faces of the British licensees' representatives. On the other hand, the Norwegian owners were very pleased. Their candidate had been picked.

DeGolyer and MacNaughton nominated

An expert nominated by drawing lots in the Statfjord Unit is to be regarded as unanimously chosen by the partnership. Nevertheless, the expert cannot simply start work after being identified in this way. The unitisation agreement states clearly that the choice must be approved by the Norwegian and British governments. This means in practice that the expert is not appointed and able to get going until approval has been obtained from both countries.

The Anglo-Norwegian Statfjord treaty actually prescribes that, if nothing is heard after 45 days, those issues submitted for approval are automatically approved. Since the treaty does not explicitly state that this 45-day rule applies to the approval of an expert/redetermination, however, the application of such a deadline has been disputed on several occasions. On 15 November, identical letters were accordingly sent to both governments to inform them that DeGolyer and MacNaughton had been selected as the expert and requesting approval of this choice.

The unitisation agreement also specifies that when a choice has been made (defined as when both countries have approved the decision), a contract must be negotiated with the expert on the work to be done. The expert thereby accepts the assignment. Although this is

not stated explicitly in the agreement, negotiations with the contract have been handled by the operator.

To underline the mistrust which prevailed in the partnership, Chevron raised as early as 5 November the question of how the contract with the expert should be negotiated. It demanded that the British partners should be present at such talks. That was rejected by Statoil on the grounds that this was the operator's responsibility.

After the draw, Chevron raised this issue again – this time in a letter. It demanded that at least one of the UK licensees should be an observer at the contract negotiations with the expert. As far as could be ascertained, the reason for this demand was that the British partners were terrified that Statoil would specify terms for the expert's work during the contract negotiations which could give pointers for the desired outcome – implicitly in favour of the Norwegians.

Statoil once again rejected this request as a matter of principle. It emphasised that the expert was to be regarded as selected by all the Statfjord Unit licensees, and that Statoil acted here as operator on behalf of all the partners in talks with the expert to secure the required contract for everyone. To avoid more quarrelling on this issue, however, Statoil expressed its willingness to have a reference group for the negotiations in which all significant issues could be ironed out so that no problems arose afterwards with the contract. That brought this debate to an end.

Government approval of the expert remained to be secured. Although several of the British partners and the DTI stated that they did not believe any 45-day deadline applied, this became quite academic when the DTI notified Statoil by letter on 15 December 1995 that it would need more time. The Norwegian government said the same on 29 December, at the request of the Norwegian licensees. This would then allow the Norwegian side to control the timing of a possible approval.

That was more practical than tactical, because it was important for the Norwegian licensees to have the necessary documentation ready as a basis for the expert's work before government approval was given. It was envisioned by the Norwegian side that this material would be ready in mid-January 1996. The practical consideration here was that certain deadlines for signing a contract with the expert and for sending documentation to the latter came into effect the day the expert was approved.

The Norwegian government was naturally in contact with the DTI on the issue. Over the years, the practice had developed with issues requiring approval that consultations took place at civil servant level in the ministries, so that approvals could be coordinated – preferably as a joint declaration – with simultaneous letters issued. The Ministry of Industry and Energy (MIE) in Oslo had understood from the DTI's letter immediately before Christmas 1995 that a possible deadline would be before the New Year, and that the UK department would revert to the issue early in 1996.

It was also the MIE's understanding that the DTI envisaged a coordinated response from both governments with approval of the expert. The ministry in Oslo was actually reluctant to write a letter saying that it also needed more time, because it did not want to be regarded as the source of any delay.

For form's sake, the Norwegian Petroleum Directorate (NPD) was instructed to launch a small investigation to verify that DeGolyer and MacNaughton was a capable company so that the MIE would have a clear conscience. The NPD report confirmed that DeGolyer and MacNaughton was qualified to do the work.

British government rejects the expert

As the days passed in early 1996, however, the MIE became impatient. Further informal contacts, which still left the Oslo ministry with the impression that the DTI would approve the expert, received the response that the matter was now on the energy minister's desk for signature. With that, the MIE was content to wait throughout February.

The ministry was informed in early March that a response was imminent. It accordingly came as a great surprise when the DTI, without any form of prior contract with Oslo, sent a letter by fax to Statoil as the Statfjord operator to announce that DeGolyer and MacNaughton was not accepted as the expert. The DTI took the view that several better-qualified experts were available. Statoil was then asked to advise the department what further steps it intended to take as operator in this matter.

A possibility that the expert would be rejected was always present, since everyone has always understood that the provision in the unitisation agreements means that the governments can refuse approval. Nevertheless, the letter from the DTI came as a small shock.

No advance indication of a negative response had been given. The MIE was initially fairly lost for words, and then became annoyed. It regarded such a letter, without prior warning or consultations – which are after all prescribed in the Anglo-Norwegian treaty – as almost an unfriendly act by an allied country. Everyone naturally asked why the British government had suddenly said no.

Since governments do not need to justify their decisions, it is impossible to give any good explanation. But it seems reasonable to suppose that the evaluation in the DTI (and at ministerial level) was that since DeGolyer and MacNaughton had been the expert on the previous occasion and had concluded with a reduction of the British interest, the risk of a similar outcome on this occasion remained substantial.

Given the subsequent pattern of reactions and analyses, it might seem that DeGolyer and MacNaughton was rejected in order to secure a different expert. The decision could not rest on technical assessments, since all analyses concluded that DeGolyer and MacNaughton was well qualified for the job – possibly the best qualified.

The three British Statfjord partners insisted after the DTI's letter of 8 March 1996 that when the nominated expert was rejected, the operator should ask the governments to approve the next candidate on the list, as they called it. But matters were not that simple. It must be remembered that the set of regulations which cover a unitised field such as Statfjord have been adopted to ensure that matters proceed in a correct and equitable manner.

Once they had got over the shock of the British rejection, the Norwegian side had to consider counteraction. The MIE's initial response was to write to the DTI, but it reconsidered and decided later not to respond. In such a conflict, caution must be shown over what gets committed to paper in case the words can be used against one later.

Statoil saw immediately that legal action was the next step. Agreements can be interpreted in several ways, depending on the desired outcome. In addition to internal assessments, the company quickly decided to secure an external legal opinion on how the agreement was to be interpreted.

Its external legal adviser, Anders Kvale in Oslo law firm Kvale & Co, was asked to study the provisions in both the unitisation agreement and the Anglo-Norwegian treaty. Statoil was also in touch with the MIE's lawyers in Oslo.

A number of discussions took place between the Norwegian partners on the agreement and opportunities for interpreting it. They quickly agreed that as long as the selected candidate had not been approved by the governments of both countries, they had no expert. Were anything to be done, a new nomination round would have to be held with possible experts, see who got the most points, or hold another draw in the event of a tie. The MIE's legal advisors and Statoil's external lawyer agreed with this conclusion.

The unitisation agreement's provision about the next candidate on the list referred to by the three British partners relates to the replacement of an expert. Such a clause does indeed exist. But it states that the approved first-choice expert can only be replaced if it is unwilling to accept or incapable of doing the job. The replacement must be unanimously

approved by the Statfjord Unit. Since DeGolyer and MacNaughton had not been approved, it had never been given an assignment or said that it was unwilling.

Some of the Norwegian partners also wanted to make it very clear that, if DeGolyer and MacNaughton was not approved, they did not want any other expert or an expert process at all. In any event, discussing a possible approval of Scott Pickford, which manifestly posed a conflict of interest, was out of the question. The unitisation agreement prescribes that conflicts of interest must not arise.

The next step?

The position was that the DTI had rejected the chosen expert. It then became important, also on the basis of the legal interpretations, to get the expert approved by the MIE. An approval and a rejection meant a move into uncharted territory, since no rules existed in agreement or treaty for what should happen in such a case. The upshot was that the process came to standstill.

After a number of consultations on possible interpretations of the agreement and the treaty, a meeting to review the position was held by Statoil and the MIE on 29 March. Statoil then received the ministry's response with its approval of DeGolyer and MacNaughton.

The company had another consideration to take into account. DeGolyer and MacNaughton had been informed that it was chosen as the expert on the same day the draw was held, but it was worried about the delay to the approval and had requested a response several times. Informing it that the process had been halted was important. Statoil and the other Norwegian licensees also considered it important that Norway had approved the choice before DeGolyer and MacNaughton were informed about what had happened.

The latter was notified immediately after the MIE's letter had been received. In the fax to DeGolyer and MacNaughton, the company was also told which government had rejected it. Its response was disappointment and surprise. It could not understand why it had not been approved. This reaction was understandable. An assignment to determine the division of interests in Statfjord was both prestigious and very lucrative. Being threatened with the loss of this job because it had been found wanting as an expert meant a loss of prestige.

But this criticism was mild compared with the assault Statoil suffered from the British partners. BP was first off the mark, sternly rebuking the company for telling DeGolyer and MacNaughton who had not approved the expert. The fact that a potential expert knew this was a serious disqualification, BP asserted, because it would no longer be impartial. So Statoil should have told DeGolyer and MacNaughton it was out of the picture and sent Scott Pickford's name to the governments for approval.

Statoil responded that the chosen expert's name had been submitted to the governments for approval, and a rejection by one of them was a matter between the two governments. Contacts were expected to be taken at government level on the issue. The company was then criticised in turn by the Norwegian partners because the response to BP had been sent before they had a chance to comment on it.

The next reaction came from Chevron, who expressed regret that Statoil had responded negatively to BP's demand. Chevron supported BP and requested than the operator now did what the UK partners wanted. At the same time, it said that Statoil's attitude meant a refusal to accept the DTI's decision and that it took a very serious view of this.

Then Conoco UK entered the lists. It backed BP's contention that DeGolyer and MacNaughton was now out of the picture, at least after Statoil had revealed who had rejected the expert. At the same time, Conoco UK criticised Statoil for the way it had communicated with DeGolyer and MacNaughton, because Chevron had demanded as early

as October 1995 that all communication with the expert should only take place after all the Statfjord partners had given advance approval of what was to be communicated.

Statoil and the Norwegian partners had immediately rejected this demand, particularly because it would breach the provisions of the unitisation agreement. Conoco UK now referred to this demand and stated that, if the company was not allowed to exercise advance censorship of everything sent to the expert, it would have to consider its position and possibly communicate directly with DeGolyer and MacNaughton on its own account to protect its interests. The company also sought to ban further contact with DeGolyer and MacNaughton by Statoil.

After discussions with the Norwegian partners, Statoil sent a curt reply to Chevron and Conoco UK which stated that the provisions in the unitisation agreement on choosing an expert had been fulfilled to the letter, that the refusal of a government to approve the expert was to be regarded as a matter for the governments, and that the reactions of the governments were awaited. In the midst of all, a request was received from DeGolyer and MacNaughton for a meeting with the governments in order to document that it was well qualified for the assignment.

That complicated the picture a little, since the Statfjord licensees had chosen an expert but had this choice rejected. Nor was Statoil in an position to arrange such a meeting because it would have required the consent of both ministries. The DTI did not want any such meeting.

But the MIE welcomed the letter from DeGolyer and MacNaughton because it was expected to put further pressure on the DTI. It was also satisfied that Statoil – and the other Norwegian partners – insisted so firmly that this was a government matter. The ball was now in the British government's court, and it could now easily end up losing the point.

Difficult to make progress

Meanwhile, time was passing with nothing happening. Progress was difficult when the prescribed rules no longer provided any guidance.

Statoil maintained that the whole affair had now become a conflict between the governments, and that it was now awaiting their next moves. After lots of soundings and discussions, it emerged that the DTI undoubtedly wanted a meeting at ministerial level to make progress. But it would not take any initiative over such a meeting with the MIE in order to clarify possible further steps. The DTI felt that requesting a meeting was beneath its dignity.

Indirectly, Statoil heard much criticism of the company for an intransigent attitude in the affair, and assertions that the operator was duty-bound to ensure that the names of other experts were submitted to the governments for approval. The company's approach meant the British government would be compelled to take the humiliating step of asking its Norwegian counterpart for a meeting.

Statoil's firm response was that, when the British government had refused to accept DeGolyer and MacNaughton and thereby brought the whole process to a halt, it was not the operator's responsibility to get things moving again. The key lay with the DTI. The issue had been taken out of Statoil's hands. This was a matter for the governments.

After a lot of shilly-shallying and a good deal of self-reflection, therefore, the DTI finally requested a meeting. The Norwegian authorities insisted that the British would then have to come to Oslo.

When the meeting took place on 6 August 1996, the DTI proposed a new procedure for selecting another expert. It wanted DeGolyer and MacNaughton to be removed from the list of experts. At the same time, it expressed willingness to accept that neither British nor Norwegian companies could be nominated.

The DTI also proposed a process which would have the consequence that an "expert" would sooner or later be chosen. It indicated that if a joint name emerged after such a process, the British government would accept that expert regardless.

The MIE was very sceptical over the British proposal. It conducted some informal soundings with the Norwegian partners and received a very clear response. They were not interested in discussing any new procedures.

The partnership had followed the applicable rules to the letter, and chosen an expert. This company had then been rejected by the British government. Why should the Norwegian licensees then want another expert, one possibly chosen on terms unilaterally proposed by the DTI?

As far as they were concerned, thee expert phase had been terminated when the British government blocked DeGolyer and MacNaughton. The Norwegian partners took the view that it was now either DeGolyer and MacNaughton as the expert or nobody.

Changing the rules demanded a unanimous decision by the Statfjord Unit with the subsequent amendment of both the unitisation agreement and the Anglo-Norwegian treaty, and that could not be done overnight. The Norwegians were more than satisfied with DeGolyer and MacNaughton.

It was made clear that the British proposal was inappropriate. The Norwegian licensees had played a clean game and stuck to the rules. Then the British had stopped the match right at the end of the second half, and had now turned up and said that they wanted completely new rules for the rest of the game and possible extra time.

Why was this desirable? For one reason only – the UK wanted to amend the rules in its favour so that it could probably notch up a win from its perspective. The Norwegian licensees refused point blank.

Nevertheless, the Norwegian side offered a small opening. If the British wanted a clarification, the two governments – as the treaty and unitisation agreement also allowed for – could send the issue back to the partnership and ask it to come up with a compromise solution.

From the Norwegian perspective, that was the same as it had been the year before: the status quo. Although this proposal had failed in October 1995, there was no reason not to try again. On the first occasion, everyone had known they had a safety valve in the expert process. In August 1996, that had possibly been blocked. Any solution would have to involve compromises.

Since the soundings after the Oslo meeting in August yielded no progress and the partners continued to do nothing, the two ministries needed to hold a new meeting. This took place in London on 2 October 1996. The intention from the Norwegian side was to signal that Statoil would be willing to look at the opportunities for negotiations between the Statfjord licensees if it was asked to do so by both governments.

Nothing was achieved in London. Although the DTI also thought negotiations could be an interesting solution, it was still primarily concerned to clarify possible new procedures for what would happen if a round of such talks failed to produce agreement between the parties. The MIE promised to think about this one more time, since the British were not in a mood for a joint request from the two governments for the parties to negotiate.

The MIE consulted Statoil, which talked in turn with Mobil, Esso and Shell – the three companies making up the Mess group together with Statoil. These conversations produced the same conclusions as before. If the British wanted to negotiate, they were welcome. But the Norwegian licensees were not prepared to talk on the basis of "signals". The British had to want to find a solution based on the existing position.

BP's unofficial initiative

The next development was a little strange. Ray Hall, BP's representative on the SUOC in Stavanger, approached me on 9 October and asked for a confidential discussion. He wished to pass on a message.

Disappointed that the meeting of 2 October had failed to achieve any movement, he said, the DTI was keenly interested that both sets of licensees negotiated and reached agreement. It had the impression from the meeting that the Norwegian government also appreciated that a possible negotiated solution would result in an increased British share of Statfjord.

The DTI would never officially request that a compromise be negotiated, but would prefer that the partners reached agreement between themselves without any appeal from the governments. As a result, the British Statfjord licensees wanted Statoil to put a suggestion to them or preferably make an offer of a percentage division (implicitly, one which gave the UK an increased share).

I then had to say that this sounded odd. The whole purpose of getting things moving was that the two ministries, on the basis of a Statfjord treaty which was binding in international law and then in accordance with article 21.1 of that treaty, jointly returned the issue to the parties as permitted under that article.

That had precisely been the purpose of the 2 October meeting. That BP came a few days later with a clear appeal for this to happen on an unofficial basis, and that the DTI only wanted to transmit signals about negotiations via informal channels, was highly unusual.

The intention from the Norwegian side had precisely been that the process halted by the British authorities should resume. It was therefore necessary to keep to applicable agreements and procedures, and not to request unofficial soundings which could not subsequently be reviewed. Nor did Norway's licensees have the impression that the Norwegian authorities believed that a negotiated solution should result in an increased British share. The contrary was rather the case.

Hall replied that the DTI would never make an official request for a negotiated solution, and that the signals he had with him were cleared at the highest level. They were to be regarded as the most official offer that could be expected.

He also explained that the DTI was worried about the issue and about it dragging on, and would prefer to have seen it removed from the political agenda. The DTI would take a positive view if Statoil contributed to a solution.

My reaction then was that this really contravened all the rules, and that it was not for Statoil to take any initiative on its own. The company would have to talk to the Norwegian partners. If negotiations were to have any purpose, they had to be conducted on the basis that both sides were prepared to achieve a result which they could accept.

I pointed out in addition that the Norwegian side had kept to the agreements at all times, and had observed the procedures. It saw no reason to consider processes other than those prescribed in the agreements, and was not responsible for halting the process.

The Norwegian licensees were prepared to resume the expert process on the basis of the selected expert, who was to be considered the Statfjord group's choice. Even though this had occurred through the drawing of lots, DeGolyer and MacNaughton was to be regarded as unanimously selected by the Statfjord licensees. That was the whole point of the procedure specified in the agreement.

Hall then said that the DTI would never approve DeGolyer and MacNaughton, but moderated this message a little by saying that the likelihood of such an approval was close to zero. In reality, the DTI wished the whole business would go to blazes.

I could not restrain myself from saying that the Norwegian side wished the same, but that this was difficult when the DTI had intervened and halted the process. Hall said that the DTI was disappointed at the way Statoil had responded in April, and had thought the operator was duty-bound to propose alternatives when the chosen expert had been rejected.

It was therefore dismayed that Statoil had refused to do anything, and that the initiatives in August and October were intended to secure progress in the matter.

In the end, we had to conclude that the British and Norwegian licensees in Statfjord took different views. Hall and I nevertheless agreed to keep the dialogue going. He asked me to talk to Røsandhaug about the proposal and let him know the response.

He received this from me by phone on 11 October. The answer was that Statoil still had no intention of doing anything. Any proposal by the company would be regarded by the British as made on behalf of the Norwegian licensees, and would also therefore bind all the latter.

Should Statoil put forward a proposal on the lines desired by the British, it would get no support from the other Norwegian licensees since this would mean an increased UK share. If the company made a proposal the Norwegian side could support, such as no change in the division of interests, it would be rejected by the British. So why should Statoil take any initiative?

I asked whether it would not now be better that the British licensees put forward a proposal, outline their position and indicate whether there was any scope for bargaining.

After a long discussion, Hall and I reached the conclusion that the three British licensees still stood by an increased UK share but that their attitude from the autumn of 1995 had softened. Chevron could undoubtedly accept a solution which was closer to zero change than a year ago, and both BP and Chevron could go very close to zero. But there had to be an increase in the UK share, even it was purely symbolic.

I responded that it would now be impossible to get the Norwegian licensees to accept a solution which gave the UK a bigger share. The best that could be hoped for was no change.

Nothing happened with the issue after that until 24 October. A meeting then took place between Statoil and the MIE. This was moreover the day before a minority Labour government took office under Thorbjørn Jagland, and the MIE's name was changed back to the Ministry of Petroleum and Energy (MPE). Statoil explained that the Norwegian side had absolutely no desire for new procedures, and that this was not open to discussion. In light of the developments to date, it was no longer certain that the Norwegian partners would even negotiate.

New well on Statfjord

A new element had entered the picture on Statfjord in the autumn of 1996 – the drilling of well G03H on the north flank of the field. Planned for a long time, this well had been postponed by Statoil in anticipation of a clarification of the division of interests. We must go back a bit in time to understand the connection.

When planning of the way Statfjord should be produced in the mid-1970s, it was quickly established that three platforms would be required. But the north flank could not be reached by wells drilled from Statfjord C, the northernmost of the platforms. It had been determined as early as 1975-76 that the northern flank would be developed later, perhaps with the aid of subsea technology, without more details being specified.

Nor was drilling technology capable of driving the long wells required to reach the north flank from Statfjord C available in the mid-1970s – wells 10-14 kilometres long were pure fantasy at that time.

The north flank was thereafter put to one side, while attention concentrated on developing Statfjord and reaching plateau production. Other tie-ins were then pursued, such as with Snorre and Statfjord's own satellites.

Once the latter – Statfjord East and North – had come on stream in the mid-1990s, it became more relevant to take a fresh look at the north flank. Drilling technology had also

made such strides in the meantime that it was now possible to reach this area with extended-reach horizontal wells from Statfjord C.

The problem was that, in the meantime, the north flank had become a shuttlecock in the context of a division of interests. It had been mapped but not drilled, and doubts had been sown over whether producible oil really existed so far out on the edge of the field.

Internal assessments in Statoil were clear – this area also contained recoverable reserves. All the seismic data indicated that. In connection with the clarification of the 1989-91 redetermination, DeGolyer and MacNaughton as the expert came to the same conclusion. It included reserves in the north flank in its decision, which had contributed to the increase in the Norwegian share at that time.

By the spring of 1996, Statoil had come so far in its assessments that a decision had to be taken. A clarification of the north flank and when it might possibly be phased into production would soon be required. If the oil was to be recovered, it had to be brought on stream no later than about 1999.

To acquire a good basis for planning such a development, Statoil decided that a well was needed on the north flank in order to be sure that the assumed reserves actually existed. It would be irresponsible to initiate a development project and then discover that the reserves were nothing like as large as expected.

Statoil accordingly saw the need to drill a well on the north flank in early 1997. Although the division of interests remained unclarified, the company formed the view that it was better to get the well drilled than to wait for a settlement of the shares – which could take time.

At the same time, Statoil's exploration specialists had decided that, although opportunities existed over much of Statfjord for proving hydrocarbons in Tertiary rocks, the prospects of finding interesting volumes were best in the northern part of the area. They accordingly expressed a wish for a combined well, so that it would be technically feasible to prove oil both in the Tertiary and in the main target, which was the Brent formation.

When this possibility was aired with all the Statfjord partners in early September 1996, the British licensees raised objections. The real reason they did not want the well drilled was naturally that the discovery of oil in the Brent formation on the northern flank would eliminate part of the basis for the interpretation which supported their claim to get an increase in the UK share of the field.

But the British were unable to say so officially. So they concentrated on the Tertiary part of the well, and came up with all kinds of relevant and fairly irrelevant arguments for not drilling the Tertiary strata.

To understand some of the more absurd aspects of these assertions, it must be remembered that the division of the Earth's geological periods places Tertiary deposits later (in other words, shallower) than the Jurassic rocks in which Statfjord has been proven. This means that a well being drilled from the seabed must pass through Tertiary rocks before reaching Jurassic formations.

In order to achieve an optimum opportunity for positioning production wells on the seabed as well as proving oil in both Tertiary and Jurassic rocks, a well path had been designed which descended from the seabed to the Tertiary and then executed a turn which hit the Jurassic Brent formation at the right point in relation to the forecasts. The British licensees made a big issue out of what they regarded as a major technological risk with such a well, and said they were not prepared to contribute to its cost.

While this discussion was under way, Statoil introduced a new element by reporting that it could secure a rig as early as November 1996 rather than in the first quarter of 1997. So approval of the drilling programme was accordingly a matter of urgency.

The British licensees continued to oppose the well. This prompted the Norwegian partners to say that, OK, they would pay themselves for that the part of the drilling which

covered the Tertiary and which was therefore by definition not a formal part of the Statfjord field, but which lay on the NCS. Such a solution is permitted under the unitisation agreement.

Since the UK partners could not oppose a well aimed at the main field with the intention of clarifying reserves in Brent, they reluctantly accepted that it should be drilled. That is to say, Chevron attempted yet another counter-argument – it saw no reason to drill the well and could not understand Statoil's haste.

By refusing to help pay for the Tertiary section of the well, the British licensees basically relinquished any claim to what might be discovered since they were not making any financial contribution to finding it.

Had they contributed, they could have claimed an interest in what might eventually be produced from the Tertiary. But this was not so important for them as to prevent oil being proved in the north flank Brent. They had defined this area as barren of reserves because these were not officially proven. But a sufficient majority was assured for the well. Plans called for drilling to begin on the north flank during November 1996.

Soundings continue

Before that point was reached, a new meeting took place between Statoil and the MPE. The DTI had not given up its efforts to get the Norwegian side to agree to establish new produces which would ensure that an expert other than DeGolyer and MacNaughton was appointed to assess the division of interests in Statfjord.

Statoil made it clear that the Norwegian licensees had no intention or desire to amend existing agreements or the regulations prescribed by these. Assessing other experts or methods to avoid the expert chosen by the Statfjord licensees, admittedly by drawing lots, was out of the question. The process had fulfilled the regulations to the letter, and that was that.

The MPE accepted this view, and said that it would be communicated to the British government.

An official SUOC committee meeting took place on 20-21 November, where the budget for the following year was one of the items on the agenda. At the invitation of the British licensees, the meeting took place at Ackergill Castle near Wick in northern Scotland.

These meetings take place quite independently of possible conflicts in the partnership because a number of decisions concerning operation of the field needed to be taken in any event by the licensees.

The division of interests between the UK and Norway was not even on the agenda, because Statoil saw no reason for any discussion on the matter. But when both sides were together for two days, plenty of opportunities to talk about the issue nevertheless presented themselves. During conversations in the breaks and after dinners and lunches, many of those present discussed the division of interests.

Some new nuances were to be heard from the British licensees. They wanted to get the affair cleared up. The DTI in London wanted it to "disappear" or find a satisfactory solution. Although interpretations varied to some extent, it was made clear that the British licensees now wanted to secure an arrangement which at least provided a "symbolic" increase in the UK share – without the content of such a "symbol" being defined more closely.

The argument was that the British side had requested the redetermination because it felt entitled to a substantial increase in its share but, in view of the time which had passed and so forth, it could rest content with a minor change in Britain's favour. The UK licensees also claimed that contacts between the Norwegian and British governments could be interpreted to indicate that the MPE felt a trifling increase in the British share could well be possible.

This last claim was surprising, particularly because the MPE, which was represented at the Wick meeting, immediately denied that any such question had been discussed between the ministries.

The answer the British received from the Norwegian side was that they were the ones who had initiated the process and who had then blocked the expert and thereby halted the work. The Norwegians saw no reason to speed up any solution. They had plenty of time.

These soundings were concluded towards the end of the second day between Hall and myself, and I repeated that the Norwegian side had no reason to hurry and was looking forward to results of the north flank well. I also pointed out that a general election was imminent in the UK.

Statoil saw no reason to respond to BP's desire for it to take an initiative. The problem for Statoil was that a proposal which the British could accept would be rejected by the Norwegian licensees – and vice versa. So the company preferred to do nothing.

Hall felt that this was disappointing, but understood that Statoil wanted to wait and that BP could not expect an initiative in the near future. He concluded that a solution might only lie a phone conversation away, and that it would disappointing if communication was broken off.

Oil discoveries in Tertiary and north flank

Well 33/9-G03H was spudded just before the second week of December 1996. The first positive report came on 23 December – oil had been encountered in Tertiary rocks – more exactly the Palaeocene – virtually as expected.

It became clear in January that the discovery might not be quite as good as anticipated. But the find was nevertheless beneficial for the dispute over the division of interests. This was the worst possible outcome for the British, but fully in line with the hopes of the Norwegian licensees.

As predicted by Statoil, drilling in Brent proved that oil was also present this far to the north in the main reservoir formations. That gave the Norwegian players a useful card in any assessment of how the interests should be divided up.

Constant informal contacts took place after drilling had concluded in the third week of January, and rumours flourished over what had been found both in the Tertiary and in the Brent formation. Statoil's hoped-for effect had thereby been achieved – oil had been proven in the north flank. The hope was that this would make the British Statfjord licensees uncertain, so that they became more open to discussing a solution to the division of interests.

The Tertiary discovery created a somewhat different effect. According to the Statfjord unitisation agreement, discoveries outside the unitised area were not part of the field. So the Tertiary was clearly not unitised. The original agreement makes it possible, in the event of a new discovery outside the geographical area comprising the Statfjord Unit, to call for an assessment of whether this find should be included in the unitised field. If agreement is reached on including it, that would be done through a further redetermination based on all relevant data.

This meant that the issue began to get interesting. The Tertiary discovery could mean another demand for an adjustment to the division of interests. In the prevailing dispute, which was based on the redetermination request of 1995, only data available before the end of 31 May in that year were relevant. Information acquired after that time should in reality have no significance.

This was naturally an illusion, but nevertheless an important issue of principle. It could therefore be argued that none of the data acquired from the G03H well, with oil proven in the Brent formation, should have any significance in assessing the division of interests.

A new oil discovery in the Statfjord area presented additional challenges for the redetermination process.

But the Tertiary was different. Oil had been proven here in a non-unitised formation. If it was possible to demand, with reference to the unitisation agreement, that this discovery provided the basis for a new redetermination, the final date for data inclusion would not be set to 1995.

Instead, it would include all the information available up to the last full month before another redetermination was requested on the basis of a new discovery. If that was January 1997, all data – including details from all the wells drilled from 1995 to that month – could be included.

The British partners were extremely fearful that the results of the G03H wells would tempt the Norwegian owners to make such a request. Where the Norwegians were concerned, it was quite in order for the UK side to have such fears. They might then become more cooperative over putting an end to the redetermination conflict.

Statoil had remained completely passive throughout December 1996 and January 1997. Things began to happen in February. Via the MPE, the company learnt that the DTI was keen to take an initiative. It now wanted to send the whole redetermination issue back to the partners.

This was not unexpected. But it nevertheless came as a surprise. The Norwegian side had long expected the DTI to become uncomfortable at being responsible for halting the redetermination process, and at finding that the pressure was on it.

The signals from the British partners were that they also wanted the whole business terminated, but that they saw no clear way out of the present stalemate. All the manoeuvring in connection with the G03H well had precisely been intended to make the British feel a bit hot and uncomfortable at being the cause of the problem.

Back to the partners

It might perhaps sound a little strange that the DTI wanted to send the issue back to the partners. The governments were fully entitled to do so, providing it was done in full understanding between the two countries. The MPE asked Statoil whether it had any problems with or objections to receiving a letter which sent the issue back to the partners.

After assessing the DTI's draft, the company had no problems with its content. However, it proposed that a deadline be set for the partners to see if they could reach agreement. The DTI proposed 1 May 1997 as the deadline, while Statoil called for it be set for 15 May.

One might ask whether 14 days more or less had any significance. But a general election was due to be held in the UK during the spring of 1997. All the betting was that the date would be 1 May.

Although the division of interests on Statfjord was hardly going to be an issue in the election campaign, it was not desirable to be in the concluding phase of the negotiations on polling day. The outcome of the UK vote was unlikely to be insignificant for the willingness of the British side to compromise. So the negotiations should have a deadline after the election.

That was also what happened. Statoil received the letter from the DTI on 10 February 1997 and an identical missive from the MPE on the following day. The interesting aspect, of course, was that the DTI initiative meant that the outcome requested and desired by Statoil in the summer of 1996 had now become a reality. It was now up to the partners themselves.

All that had been achieved by the DTI's prevarications about new procedures or rules for selecting an expert was an eight-nine month delay, when nothing constructive had happened from the UK perspective but when the Norwegian side had drilled the G03H well and thereby strengthened its position.

The next step was to talk with the Norwegian partners on their attitude to the request from the governments that negotiations be conducted. It quickly emerged at this meeting that good deal of uncertainty prevailed within the group. This was partly because some people were newcomers, and thereby unfamiliar with what had happened earlier, and partly because the partners had problems seeing what the government request involved.

They accordingly needed some time to get up to speed on the issues again. There was a clear desire for a display of strength, in that developments had gone in the Norwegian favour, and to put pressure on the British licensees to make concessions.

It was also unclear to the licensees what the governments meant by the 15 May deadline. Did they want the division of interests to be decided by then, or a clarification of whether it was possible to reach a decision? The partners also expressed frustration at the absence of any new elements or developments in the issue.

It almost seemed as if the other Norwegian licensees wanted Statoil to present them with a ready-made strategy for further work. For its part, Statoil acknowledged that nothing had happened and said it wanted a dialogue with the partners to establish whether they had any thoughts or ideas which could be considered. The meeting was intended to launch a discussion, not to present any cut-and-dried strategy. So the Norwegian partners were asked to think about the matter and come up with suggestions.

In the event, PL 037 had little to contribute in the form of ideas. Nor had Statoil actually expected anything else. Its Norwegian partners were often good at criticising but seldom constructive. On the other hand, criticism often forces the operator to act.

In order to make progress, Statoil decided that it was important in formal terms to register with the Statfjord partnership that both governments had asked it to negotiate. The SUOC was accordingly called to a meeting on 28 February.

This became a rather unusual occasion in a number of ways. There sat the two groups, the Norwegian and British licensees opposite each other, along with the companies not included in the negotiating team – such as Norske Conoco, Saga, Amerada and Enterprise. Representatives from the DTI, the NPD and the MPE were also present.

A lot of shadow boxing and flowery statements accordingly occurred in a plenary meeting of this kind. It was important not to say too much, while simultaneously express a willingness to find solutions. It was otherwise clarified that Statoil would lead the negotiations for the Norwegian side and Chevron for the British team. Put briefly, both sides declared that they were willing to negotiate on the basis specified by the governments.

The meeting was accordingly short, and concluded with the two negotiating teams agreeing to discuss a number of practical issues related to the coming talks in a separate meeting confined to themselves after a brief lunch. During the lunch, the British side made a rather unusual request. It asked on behalf of the DTI whether the latter's representative to the SUOC could attend the meeting between the negotiating teams.

This was a little strange because, when the two governments had jointly asked the licensees to negotiate without preconditions, it was hardly appropriate for one of the ministries to be present while the negotiating teams discussed the arrangements for the talks. That could hardly have been considered negotiations free from interference.

Statoil accordingly turned down the request. The British licensees accepted this gracefully. They probably took the same view as Statoil privately, but had presumably felt pressured by the DTI to ask.

The negotiating teams faced each other for the first time at this meeting. They comprised the Mess group for the Norwegians and all three British licensees – Chevron, BP and Conoco UK.

They started with a practical discussion, which revealed that the British partners were not ready to being discussions immediately but needed a little time. With an eye to the 15 May deadline, they proposed that the actual talks should begin immediately after Easter 1997. At least one day-long meeting a week was scheduled up to 15 May. It was agreed that these would alternate between Stavanger and Aberdeen.

Towards the end of the meeting, a discussion took place on what the letters from the ministries actually meant and what the two teams were supposed to be negotiating over. The letters requested the licensees to clarify whether it was possible for them to find the basis for achieving a solution.

This was a vague formulation, of course, which gave room for interpretation. It became very clear that the two sides did not have quite the same understanding of what the ministries were asking for. However, it was agreed that the question of what was being negotiated would be settled during the negotiations.

The first negotiating meeting was scheduled for Wednesday 2 April in Stavanger.

Changes to the strategy

A couple of comments can be made about the letters. The British government basically had little confidence that negotiations between the two sides would succeed, at least if they were to be conducted without preconditions. Ever since the spring of 1995, the DTI's behaviour indicated that it believed the British share of the field should be increased.

Statoil had also got wind of regular meetings being held by the British licensees with the DTI from as far back as 1993, where preparations for the forthcoming redetermination round were discussed and where the basis had always been the size of any increase in the UK share of Statfjord.

The British government still had a level of expectation about an increased UK share. Attitudes were undoubtedly rather different among the British licensees. Their level of expectation had changed and they no longer foresaw any particular rise in the UK holding,

although they still thought it should be possible to achieve some increase. Ever since 1995, the DTI had accordingly wanted certain preconditions for an increased UK share to be in place before it could approve a solution.

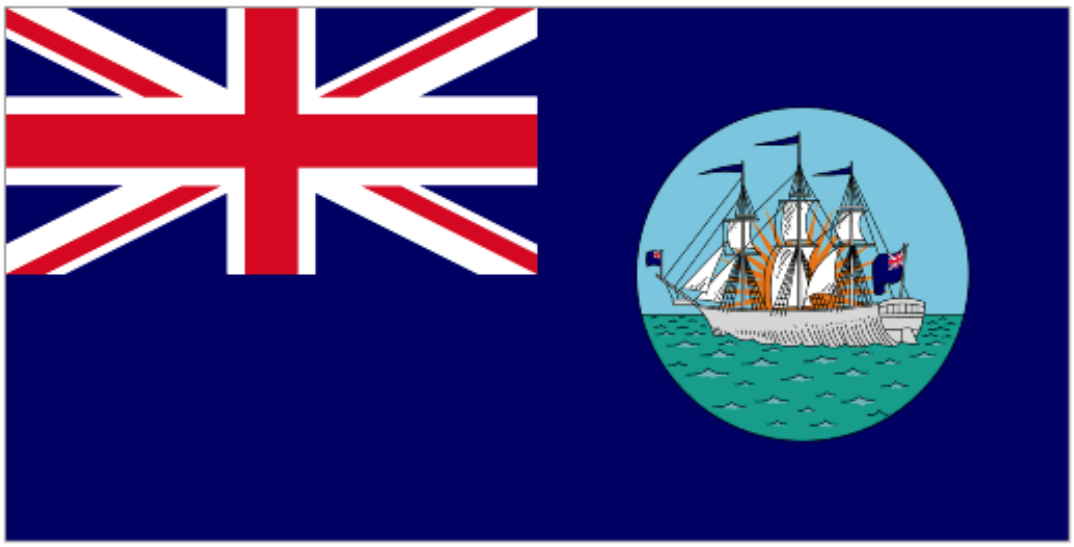
Statoil necessarily pursued both internal debates on the strategy to be adopted as well as a number of discussions with its negotiating group. A couple of meetings were also held with the MPE in Oslo in order to clarify the Norwegian side's negotiating approach.

The internal discussions at Statoil, including talks with top management and particularly with Geir Pettersen, head of the oil operations (DRO) entity, produced agreement on the company's own internal mandate. This involved bringing the issue to a conclusion with, at a minimum, no change in the division of interests.

On that basis, the Mess negotiating team quickly concurred with a Statoil proposal to concentrate on retaining the existing division. The mood had changed a good deal from 1995. At that time, the Norwegian side had been prepared to discuss a minimal or symbolic increase in the UK share in order to avoid an expert process and a long-drawn-out conflict.

Since the conflict had become drawn out in any event following the DTI's rejection of DeGolyer and MacNaughton as the expert, and since oil had been proven by the G03H well, it was now in no mood to concede anything at all to the British. It was even discussed whether the Norwegian side should take a tough stance on securing an increase in its own share.

Statoil then had to call in some key people who had worked on the technical basis for the redetermination in the summer of 1995 to clarify uncertainties in the calculations and the statistical uncertainty range. This was necessary if all the arguments for an increase in either the Norwegian or the British share were to be assessed on an objective basis. The conclusion was that there was still a small but measureable probability for a higher UK holding. The strategy was clear.



The house flag of the Department of Trade and Industry (DTI).

A number of informal and confidential contacts occurred during March between Statoil and BP in particular, and to some extent with Chevron. It thereby became clear that the first meeting would be used by both sides to explain their positions and views, and to identify where disagreement existed. Moreover, the British promised that they would justify rather more precisely than before why they had launched the process and the grounds for their view that the UK was entitled to a larger share of Statfjord.

During the preparations for the meeting, concern was expressed by the Norwegian licensees – particularly Mobil – over how much backing they had from the Norwegian government. They did not want to find themselves in a position where the government could put a spoke the negotiating team's wheels.

Mobil was also very insistent that the Norwegian side, which had won the draw over the expert, must use this advantage in the negotiations to put pressure on the British. Implicitly, Mobil felt that DeGolyer and MacNaughton remained the only possible expert if the negotiations proved fruitless, and that the Norwegian side was looking forward to it starting work.

It is also possible, of course, that Mobil was not entirely sure how firmly Statoil would stand up to British pressure in the negotiations. After all, the latter company had an international collaboration with BP.

Preliminary skirmishes

During my conversations with Hall at BP ahead of the negotiations, he made an interesting comment – in view of the way things were now shaping up, the British licensees should have accepted Statoil's offer in October 1995 of an 0.25 per cent increase in the UK share.

I then had to reply that the offer had been limited to the day it was made, and was history once the British had requested an expert decision on 20 October 1995. Hall responded by asking whether a possibility might exist for the British licensees to resume negotiations where the unofficial soundings ended in October 1995. My comment was that such contacts had by definition never taken place.

Ahead of the first negotiating session on 2 April, it had also been clarified that the British licensees, who had initiated the whole process, would present their views first. The Norwegian side would then follow suit.

Before describing the actual talks, it is necessary to note that the negotiators on either side of the table knew each other relatively well from before. That was because they were the representatives of the various companies on the SUOC. These people met relatively often to discuss and decide how Statfjord was to be run to the benefit of all the licensees.

So this was no negotiation between strangers. That also made it relatively easy to interpret body language and other relations. And the atmosphere in the talks was rather different from the one which would usually prevail. People were also committed to behaving in a civilised and friendly manner. At the same time, such substantial assets were at stake that it was important to protect one's own interests.

It had also been resolved that each side could bring such "expertise" to the meetings as was required to present views or studies. Attendance at the sessions was nevertheless confined largely to the negotiating teams, and the discussions remained within this group.

As expected, the opening meeting on 2 April was confined to preliminary skirmishing, where a number of lines were drawn in the sand and the negotiators otherwise felt their way forward with each other.

Since agreement had unofficially been reached on presenting principles and areas which could be of common interest, BP opened on behalf of the British by saying that their starting point for the talks was the assumption that the UK share would increase.

They were otherwise interested in discussing collaboration over production from the Statfjord North and East satellites, in looking at opportunities for improving recovery from the main field and so forth.

The British side had brought a Chevron reservoir specialist with them, who explained why the UK licensees believed that the Norwegian model for allocating reserves in Statfjord was wrong and why Statoil had interpreted the reservoirs incorrectly. This was listened to politely and largely allowed to pass without comment by the Norwegian side.

BP said that the British were ready to present where they stood in their assessment of what they felt the division of interests should be. At that point, the Norwegians intervened and said they were not interested in hearing the British standpoint. This presentation was accordingly not made. (In retrospect, that was possibly an advantage, because the British licensees were prepared to say that, although their basic expectation had been an increase from 14.5 per cent to about 17, they could rest content with about 15.5 per cent. Had that ambition been voiced at this stage in the talks, the result could have been a period of trench warfare where defending positions became more important than making progress.)

This was followed by a debate on the principle of the British proposal for an increased UK share. According to the Norwegian side, it did not accord with the desire by the governments for negotiations without preconditions and that, if an increased share was a British precondition, the negotiations could simply cease there and then. The British eventually moderated their position to stating that it was their ambition to achieve an increase in the UK share. On that basis, it was resolved to continue the series of meetings.

Statoil moreover presented a list of issues which it felt might be of common interest, and suggested that attention should be concentrated on these if the two sides wanted to reach agreement. A package solution might then be developed which everyone could accept.

The thinking was that the best approach was to identify issues where the two sides had the same interests and could collaborate, and then finally see whether this was enough for them to reach agreement on the equity issue as well. It was agreed to think through the options and meet again in a week.

A series of meetings

Before the second meeting, held in Aberdeen on 8 April, the Norwegian licensees discussed strategy and how they should convey the message that they envisaged no possibility of negotiating with preconditions and saw no opportunity for increasing the UK share.

The Aberdeen session began with the Norwegians listing the areas both sides had mentioned in the previous meeting as being of common interest.

These included such issues as repayment of the “bank” of oil which had accumulated through British overlifting as part of the underlifting agreement for the satellites and the mechanism for production sharing for the satellites after 1 January 1998.

Other matters were the use of the UK’s gas offtake from Statfjord B, opportunities to bring additional third-party reserves to Statfjord, improved recovery from the reservoirs and so forth.

In response, the British reminded the meeting that they still wished to increase the UK share of Statfjord but said they could well also discuss the other elements.

The Norwegians then found that the time had come to put their foot down. They declared that they saw no prospect for a solution which involved an increased British holding in Statfjord. A number of other considerations could be discussed as possible parts of a total package but, in light of the prevailing circumstances, the Norwegian licensees had no plans even to discuss an increased UK share.

It was pointed out that the Norwegian position had been an increase in Norway’s holding, but they recognised that this option was impossible for the British to accept. The Norwegian licensees had accordingly assessed the position and were willing to meet at the only point on which the two sides could agree, which was to retain the existing division of interests.

A couple of clarification rounds were required at the meeting before the three British licensees understood that the Norwegians were serious. They then expressed great disappointment and said that this radically changed their opportunities. It was by no means certain that they would continue the negotiations if that was the Norwegian standpoint.

The session was accordingly concluded without any agreement to meet again. Before any new meeting could be scheduled, the three British licensees had to consider their position and tactics. It was agreed that the two lead negotiators would stay in touch by phone and then see if any further sessions were to take place.

A couple of days later, the meeting scheduled for 15 April in Stavanger was cancelled after contacts between Statoil and Chevron. The prospects for reaching agreement in the negotiations now looked poor.

Statoil used the time which had thereby been made available to sound out the positions taken by the three UK licensees a little. It had observed that Conoco UK's representative at the talks, Ian Sweetman, who had been very active in the redetermination work during the summer and autumn of 1995, had largely remained quiet and not revealed any standpoint at all.

Through contacts in Norsk Conoco, it became clear that Conoco as a group now wanted to get the issue clarified and finished with. Conoco UK was therefore not particularly active in the meetings and played more of an observer role.

Knowing where the other side stands and whether any splits or internal disagreement have arisen is particularly important in such negotiations. Since Conoco as a group wanted the matter cleared up and put behind it, Statoil knew there was no united front behind the demand for an increased British share. That made it easier to devise strategies for achieving the Norwegian goals.

It was also clear that both BP and Chevron wanted to be able to end up with a result close to the secret offer made by Statoil in October 1995. Although aware that this had been time-limited and was no longer valid, they naturally remembered what it had involved. Given these hopes, the disappointment expressed by BP and Chevron over the Norwegian attitude on 8 April is understandable. But it remains the case that the clock cannot be turned back.

After a few more days, a new signal was received from the British side. It wanted the meeting planned for 22 April to take place. A discussion followed on whether to ask the British to come to Stavanger, since the cancelled session of 15 April should have taken place there.

Since the British wanted to continue the negotiations in the knowledge that the Norwegian side was not willing to discuss an increased UK share at all, however, the Norwegians decided that they could meet them in Aberdeen. It was not necessary to humiliate them by demanding that if they wanted to continue, they would have to come to Stavanger. Such considerations may sound banal, but have symbolic significance in sensitive negotiations.

When the Aberdeen meeting began, the British licensees took a long time to explain that they were disappointed at the Norwegian attitude but that, after an overall assessment, they would continue the talks. They noted that, subject to certain conditions, they could accept a solution which left the prevailing division of interests unchanged. As compensation for such acceptance, they wanted the Norwegian licensees to write off the volumes overlifted by the British as part of the agreement on producing the satellites.

It is not easy to determine whether they thought it would be possible to secure such a concession, but this would clearly have been a very high price to pay. The volume of oil owed by the British to the Norwegian licensees was expected to be 13-14 million barrels at 31 December 1997.

With an oil price in the spring of 1997 at roughly NOK 125 per barrel, this bank would be worth some NOK 1.5 billion. So the British licensees were demanding a relatively stiff price. They justified this on the grounds that accepting an unchanged division of interests represented a very substantial concession on their part.

The demand that the bank should be written off was rejected point-blank by the Norwegian side. The reason was simple. Calculations of the present value of an 0.1 per cent

holding in the Statfjord Unit put this at about NOK 330 million. Instead of proposing an 0.5 per cent change in the division of interests, the British had asked to be let off a commitment with a corresponding value.

On the Norwegian side, both Mobil and particularly Esso reacted strongly. They pointed out that the underlifting agreement was an arrangement which had given the British big advantages, and that the purpose of the agreement was for the British to return the volumes they had received in excess of their entitlement so that the accounts were back in balance at a specified date.

The Norwegian side had offered to look at how the repayment could be tailored so that it became less burdensome for the British licensees, but not to write it off. Mobil said very clearly that it was out of the question for the PL 037 licensees, as the rightful owners of this oil, to surrender these resources.

The resource accounts must ultimately balance. It was also necessary that this settlement could be audited and the account reduced to zero in good time before production from Statfjord ceased.

The Norwegian licensees also presented a list of other issues of common interest. According to the British, the proposed elements were of little or no value apart from the question of repaying the bank. Opportunities admittedly existed which could result in value creation at some time in the future, but they were by no means certain.

The next meeting took place in Stavanger on 29 April. An offer was presented by the Norwegians that the start date for repaying the bank of 14 million barrels could be postponed somewhat, perhaps by as much as a year.

While the British could accept the principle of a repayment, this was only on the basis of completely different criteria from those specified in the agreement. They pointed out that recoverable reserves in Statfjord were in the process of being upgraded, and that production was developing ahead of forecasts. The British could accordingly be willing to repay these barrels from that part of Statfjord's output which was exceeded the approved production profiles.

Although this represented new signals, the Norwegian side concentrated on the fact that the proposed approach would introduce an element of uncertainty. The bank would then be paid down to zero only if Statfjord production exceeded expectations.

The British accepted that, but maintained it would provide an incentive to produce as much as possible from Statfjord as early as possible. The bank would then be paid down rapidly.

They accordingly did not want to base repayments on the production profile now in the process of being adopted, but on the one set as the target for the improved recovery project – namely 4.3 billion barrels (680 million standard cubic metres). Output above that profile would then be used to repay the bank.

This session was largely devoted to discussing profiles and repayments, and it was made clear that the principle of repayment was fundamental. But the risk that full repayment would not be made implied by the British offer was far above a level which the Norwegian side could accept. The meeting was nevertheless regarded as a step forward, and it was felt that the contours of a possible package solution were becoming discernable.

Before the next meeting, the Norwegians devoted their time to calculating risk pictures and assessing the probability of achieving the production profiles specified in the long-term forecast.

This work showed that accepting the British proposal on the basis of the applicable reserve profile of 3.9 billion barrels (620 million scm) would pose little or no risk. With the proposed increase to 4.1 billion barrels (650 million scm), the risk of failing to get the whole bank repaid was rather greater.

A profile of 4.3 billion barrels, including improved recovery, presented a very substantial possibility that the bank would not be repaid in its entirety on the basis of the British offer. The feeling nevertheless remained that progress had been made and that the outline of a compromise could be seen.

The next meeting was held in Aberdeen on 6 May. In this session, the Norwegian side summed up the position of the negotiations. First, the basis was that the existing division of interests would not be changed. Second, the production ceiling for the Statfjord satellites for the rest of 1997 would be raised from 156 300 barrels per day to 175 000. From 1 January 1998, the operator would be able to optimise production via Statfjord C to give the highest possible revenue overall for everyone, including the UK partners.

Furthermore, a separate team led by Statoil would study increased use of the gas pipeline from Statfjord B to the UK. Finally, the bank was to be repaid in its entirety, but the start date for such repayments could be delayed. Suggestions from the British on a possible timetable were requested by the Norwegians.

A long discussion followed on repayment and production profiles. The British still wanted the bank to be repaid from output above an anticipated level, calculated from the highest possible base profile. They made it clear that uncertainty whether the whole bank volume would be repaid was important for the UK licensees. “Uncertainty over this was the key to” what they could accept in other areas.

After a good deal of shilly-shallying, it was concluded that there seemed to be only one point on which the sides disagreed, but that all the points were interdependent so that either all or none of them were accepted.

The Norwegian licensees said it was out of the question for them to end up with an agreement on repayment of the bank which did not guarantee that it would be reduced to zero eventually and in any event before the Norwegian Statfjord licence expired.

Although 15 May was approaching, the feeling was that the negotiating teams were still not under sufficient pressure, and that it was therefore still too early for compromises to be reached. The summing-up of the meeting confirmed that agreement on the issue of repaying the bank would mean that all the points listed had been agreed.

On that basis, preparations began for the meeting of 13 May. The British had been told that they had to review their attitude to repayment of the bank. There had to be a mechanism which guaranteed that this would be reduced to zero. It was clear to the Norwegian side that a date when repayment should begin had to be clarified along with which profile, if any, was acceptable to them as a basis for the repayments.

A discussion had taken place at the end of the 6 May session on whether the negotiators should stick to the government deadline of 15 May. Both sides agreed that it would be possible to extend the deadline if they could report progress.

The 13 May meeting began a little dramatically because Linda Cross, Chevron’s delegate to the negotiations and head of the UK team, was unable to attend as a result of illness. But BP and Conoco were in place with a mandate to continue the discussion. Since not everyone could be present, the session itself acquired a rather different character. But Cross was accessible by phone if necessary.

In a final gesture to reach agreement, the Norwegians had decided to play a new card in the talks. As mentioned above, oil had been discovered during January 1997 by well G03H on the Statfjord north flank in Tertiary (Palaeocene) strata, a formation which was not unitised as part of Statfjord even though it lay within the unitised area.

After summarising the position, Statoil accordingly presented a supplementary offer to incorporate the Palaeocene reserves in the unitised area in the Stooip for Statfjord and treat to them as part of the unitised reservoir.

The British response was that so much uncertainty existed about the potential worth of this discovery that no value could be attributed to it. That prompted the Norwegian side to

point out that it was the British licensees who had introduced the uncertainty idea by wanting to create it over the issue of repaying the bank. So they should be able to relate to uncertainty. Otherwise, the proposal to include the Palaeocene fell on stony ground. There was little interest.

A proposal was also presented by the British. Put briefly, they could accept that part of the volumes owed to the Norwegian licensees was to be repaid in accordance with a specified timetable, while the remaining repayment should – as before – only be made if the Statfjord field produced more than expected. This was described as an inclined repayment profile. The British also claimed that this was about as far as they were willing to stretch. They had no further leeway.

The Norwegians had devoted considerable time to discussing the cost of the various solutions and the value of the deferred revenue from delaying a start to repaying the bank which they were willing to accept. They could undoubtedly contemplate a cost of NOK 150-170 million from postponing the start to repayment, providing the rest of the package was accepted.

This was because the Norwegians had quickly realised that the British, if they were to swallow a package which included zero change to the division of interests, had to be recompensed in a way which they could present symbolically as acquiring something else in return.

The aim of the Norwegian licensees was to limit this expense as much as possible. Statoil's assessment was that a willingness to stretch as far as NOK 300 million would provide an opportunity for a compromise.

A discussion took place towards the end of the 13 May session on what action should be taken with regard to the governments, since it was clear that agreement could not be reached on all the points before 15 May. It was resolved to request that the deadline be extended by a few weeks. In addition, a discussion took place about what such a letter should contain and who should write it.

Statoil maintained that the operator had received the government requests, making it duty-bound to establish negotiations, and it should therefore also communicate the position to the ministries. This was eventually accepted, but discussion then began on what should be said. Statoil outlined briefly what it felt should be written, and when the British licensees also understood that this would only be a letter which specified that some more time was needed to conclude the talks but that progress had been made, they expressed themselves satisfied with receiving a copy. Statoil was accordingly authorised to write to the governments of both Norway and the UK to ask for more time.

The date of a possible next meeting was also discussed. After much shilly-shallying, agreement was reached on acting as if the governments had extended their deadline, and a new meeting was scheduled for Tuesday 20 May. Because the previous day was Whit Monday and a public holiday in Norway, it was agreed to hold the meeting in Stavanger.

Postponement of repayment – a crucial point

The 20 May meeting was devoted almost entirely to a discussion of profiles, risk and principles related to repayment. This proved a long and drawn-out debate.

Finally, the British made an importance concession. Although they still wanted a split repayment profile for the bank volumes if possible, they could accept the principle that the bank should ultimately be reduced to zero. What the two sides failed to agree on was the start date or the principles which should govern these repayments.

This concentration on a single point might seem odd. To understand why it was important, it must be borne in mind that analyses showed that an early repayment of overlifted volumes would be burdensome for Chevron and Conoco UK in particular, but for BP as well. These companies were involved in big investments on the UKCS in 1997-99 –

the first two companies jointly on the Britannia field, while BP was heavily engaged west of Shetland.

Losing a good deal of their Statfjord revenues during this period could present problems. So reducing this burden and possibly postponing it for as long as possible was an urgent matter for the British.

Since these were assets which the UK licensees owed to the Norwegian partners, waiving them was out of the question for the latter. But none of the Norwegian licensees had budgeted extra revenues from such repayments, both because the earliest they could start would be 1998 and because the exact value involved could only be calculated at the end of 1997. Postponing the start data was therefore not the biggest problem.

Selling a postponement of the repayment as an increase in present value for the British side and as compensation for accepting zero change to the division of interests could be opportune for the UK partners.

Where the Norwegians were concerned, it was important to sell this as not giving ground on the division of interests but as postponing repayment in return for a free hand to continue pursuing optimum production of the Statfjord satellites after the underlifting agreement ended on 1 January 1998. Without such an understanding, the priority rules for Statfjord C would revert to their original form and put Statfjord Unit output ahead of production from the satellites.

What the underlifting agreement had ensured was a change which gave the satellites first priority from 1994. But this deal was regarded as so expensive for PL 037 that the licensees no longer wanted to extend it. That made it important to include a lack of restrictions on the satellites in the package.

The MPE had also been very concerned about this point, and wanted it clarified so that the government avoided having to make a possible intervention in order to ensure that Statfjord North and East were produced in line with Norwegian wishes.

On 20 May, no answer had yet been received from the governments on a postponed deadline, and it was uncertain when such a response would come. Since little progress had actually been achieved on the remaining questions, too, it was very unclear whether agreement was possible.

The two chief negotiators, Røsandhaug and Cross, were accordingly authorised to clarify when the next meeting would be held. A couple of days later, the two ministries signalled that they would extend the negotiating deadline by about a month, until 18 June.

The next initiative did not come via the negotiating delegations but went to Pettersen at Statoil, who was head of DRO and the person to whom the Statfjord division reported. He was contacted by the head of Chevron UK during the weekend of 24-25 May and told that the company had reviewed all sides of the issue and was prepared to take it forward to a conclusion.

Given that Chevron saw opportunities for achieving a resolution, a meeting was arranged between Cross and Røsandhaug in Stavanger on 27 May. With nobody else present, the whole issue was gone through along with the development of the negotiations and the present position.

The pair also discussed the areas where the Norwegian licensees had problems accepting the British standpoint and vice versa, so that they were aware of which minefields had to be avoided. Chevron promised to work on BP and Conoco UK in order to be ready for the final round. Statoil made a similar undertaking for the Norwegian side.

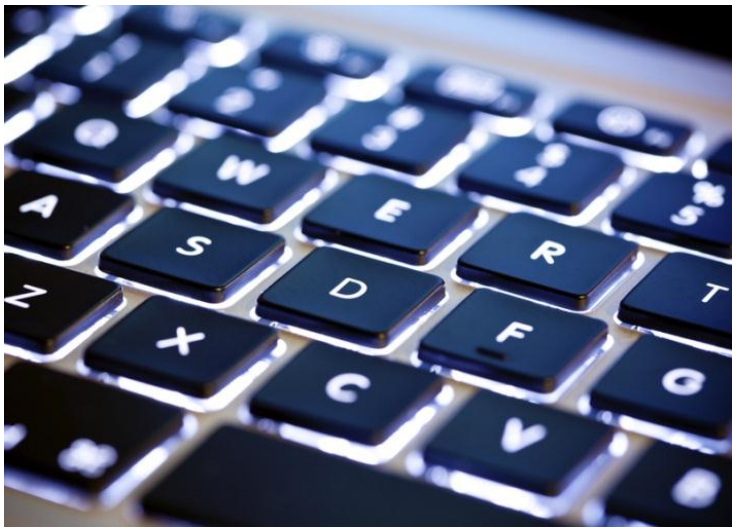
The final negotiating session took place in Aberdeen on 11 June, at the Marcliff at Pitfodels Hotel rather than the usual venue at Chevron UK's offices. Holding meetings outside an office environment has both advantages and drawbacks. On the one hand, people can concentrate on the task at hand. On the other, they do not have the usual resources to hand and cannot easily get hold of people or information needed.

Ahead of the meeting, the Norwegian side had calculated what postponing the start of the repayment period would cost in relation to the original timetable. The dates applied were 1 January 1999, 1 January 2000 and so forth. Unfortunately, PCs were not available in the meeting room were further calculations required. It became clear immediately that the principles which had always formed part of the package, such as no change in the division of interests, clearance for satellite production and collaboration on using the gas pipeline from Statfjord B to the UK, were uncontroversial.

But a new point was raised, of which both sides were aware. The British government, in particular, had expressed a desire that the licensees should confirm that the process which was now close to a final resolution would be the last of its kind for Statfjord. The Norwegians had no problem accepting such a clause, because this was what the unitisation agreement prescribed in any event.

The key point was and remained repayment of the bank. As the morning wore on, it became clear that the British were standing by their assurance of 20 May that they could agree in principle that the whole bank had to be repaid. The questions then were when repayment should begin and what criteria should govern the repayments.

Discussion focused first on whether to apply the principles in the underlifting agreement, which specified that repayment in the early years should be taken from the Statfjord Unit's production on Statfjord C. The problem with this principle was that postponing the start of repayment would mean that the volume of oil available for this would be lower and of little value to the Norwegian licensees in the first few years.



There were lap top trouble at the negotiation at high level.

At the same time, the provisions also stated that repayment for the third year should come from full-field production. That would in any event hit the British licensees hard in this year, because a postponed start-up would mean large volumes were to be taken at that time. This would in turn cause a sharp reduction in revenues for the UK partners in the one year.

The discussion accordingly concentrated on the possibility of profiling bank repayment on the basis of criteria other than those prescribed by the underlifting agreement. That was where the lack of a PC made itself felt, because it was important to be able to calculate the effect of different repayment methods.

The Norwegian licensees contacted the hotel reception, which incredibly enough had a laptop PC available with Windows 95 and all the necessary functions. But the next hurdle was to get it to work. Everyone present from the Norwegian side (including myself) was used to Norwegian PCs, so that the keys and other functions on the hotel's machine were not necessarily familiar. Moreover, no user guide was available.

So the negotiations were put on hold while the Norwegians tried to enter the figures from paper copies they had with them, and then process them to calculate effects and consequences. However, sitting in a meeting room at an Aberdeen hotel with a negotiating team made up of relatively well qualified people struggling to located the function keys on an

unfamiliar laptop was a rather unusual experience. A good deal of trial and error was needed.

In order to calculate the effect and give a response to the British, it was necessary to work out repayment profiles for the UK licensees and what these meant in terms of oil and money for the Norwegian side.

After a while, this went sufficiently well that the latter began to trust the PC enough to continue. I rather wonder, too, what the British side thought the Norwegians were up to. The process took a long time, with constant running to and from the hotel reception.

A counter offer was eventually presented by the Norwegian side. This stated that repayment would be based on 50 per cent of the British share of production from Statfjord, starting from 1 January 1999.

After a good deal of discussion, the British responded that they could contemplate starting repayment on 1 January 2002 based on 30 per cent of their share of Statfjord output. A further exchange of views led to an agreement that repayment, whenever it might begin, should be based on 40 per of the UK share of the field's production. This meant a principle had been established.

The British also indicated that they could be rather more flexible with regard to the start-up date, and the Norwegians immediately responded that they were also prepared to shift on the start-up date. While the British proposed 1 January 2001, the Norwegians countered with 1 January 2000.

An agreement might have seemed pretty close. But the British called a halt to the session at this point, on the grounds that they were not prepared to sit and haggle over dates. They had already exceeded their mandate. The Norwegians responded that they had done the same. So the meeting ended without a final conclusion being reached.

It was agreed that a further meeting would be held if necessary, but that the chief negotiators would stay in touch and possibly schedule another session. Once at Aberdeen airport, Statoil discussed with its delegation how far it was willing to go. The Norwegian message had been that 1 January 2000 was absolutely the latest date for starting repayments.

During this review, Statoil discovered to its astonishment that Esso, Shell and Mobil were all prepared to stretch further than 1 January 2000 if that was necessary to secure an agreement. The same partners had told Statoil an hour earlier that they had nothing more to give. On the flight home, Røsandhaug expressed his irritation that they had been so close and that the partners had not signalled that more could be conceded.

Even if the Norwegian side had gone a little further at the negotiating meeting, however, it is not certain that agreement would have been reached. The British licensees had made it clear that their final concession was an attempt to bridge the remaining gap, and new proposals there and then were unlikely to have succeeded. In retrospect, I am convinced that such a failure would have been the outcome. So it was perhaps best the meeting ended as it did.

Statoil decided to wait a few days, to give the British a chance to reflect as well. This was intended to prepare the ground for the final compromise and to get closer to the reporting deadline of 18 June. Decisions are not usually taken before they have to, after all.

Since there was so little that separated the two sides, the solution was undoubtedly to split the difference. On 17 June, Røsandhaug phoned Cross and proposed a compromise whereby repayment of the bank began on 1 July 2000 in accordance with the principles which had been agreed.

Chevron accepted this immediately and, after a round of phone calls, all members of the British negotiating team agreed. A corresponding series of calls to the Norwegian negotiators clarified that this was acceptable.

Agreement reached

Everyone concurred in the agreement which would terminate the redetermination process launched in the early spring of 1995. The package comprised the following heads:

- no change in the division of interests between Norway and the UK on Statfjord – 85.47 and 14.53 per cent respectively
- the satellites could produce up to 175 000 barrels per day for the remainder of 1997
- the operator could optimise the flow of oil through Statfjord C from 1 January 1998 in order to maximise revenues for all the parties
- a group comprising Statoil, Shell, BP and Conoco would look at opportunities for more optimum use of the UK gas offtake from Statfjord B, and report on commercial opportunities and so forth by the end of 1998
- repayment of the bank volumes would begin on 1 July 2000 on the basis of 40 per cent of the British share of output from the whole Statfjord field
- the redetermination process now concluded on Statfjord would be the last.

On the basis of this agreement, Statoil sent identically worded letters to the MPE and the DTI to communicate the negotiated solution. The letter was dated 19 June and sent both by telefax and in the post. It contained no information about the details of the agreement. The letter also reported that Statoil would brief all the Statfjord partners on the results of the negotiations at the meeting of the SUOC planned for 26 June.

British etiquette

I received a phone call on 20 June from Linda Cross in Chevron with news that the letter Statoil had sent to the DTI did not accord with the agreement she had discussed with Røsandhaug, and that the DTI actually wanted to receive a different text.

This sparked a hectic discussion. The first question was where the error lay, and whether the British licensees were refusing to stand by the agreement. They gave an assurance that they accepted the deal. So what was the matter with the letter to the DTI? After a couple of rounds, including contact with Hall at BP, the following explanation emerged.

The letter from Statoil stated that the partnership had reached agreement, and that the intention was to provide details of the accord at the 26 June meeting. The DTI reacted negatively to this because it felt that the agreement would thereby become public knowledge and place it in an awkward position.

Publication would occur before the DTI had a chance to assess the agreement. The department did not wish to find itself under such pressure. It wanted to be free to comment on the agreement reached and possibly to assess whether to reject the accord.

As a result, the DTI wanted the letter which had been sent withdrawn. Statoil responded that withdrawing a letter which had been sent to the ministries in two countries and all the Statfjord partners was not possible.

It had been dispatched by the operator to report the outcome of a process which the two ministries had asked the partners to pursue in order to try to reach agreement. All official correspondence in this context had been between the operator and the DTI or vice versa.

The letter was a report made in accordance with the deadline the governments had set, and it was the operator's duty to submit such an announcement. All that it briefly reported was that agreement had been reached. Nothing was said about the content of this accord.

When a request then followed for a new letter, Statoil found itself with a problem. I nevertheless expressed myself willing to look at and assess a new letter if the British licensees believed that this was necessary. They said it was.

After another phone conversation with Cross, Statoil said it was willing to consider sending a new letter based on the formulations which the British licensees maintained were “correct”.

A draft arrived by fax a couple of hours letter. The British licensees said that this was more in line with what the DTI would find acceptable. My first reaction was that it was so obsequious and servile that Statoil would not answer for such content and thereby would not send a letter of this kind.

The operator almost begged to be forgiven for imagining that it could tell anyone the result of the negotiations which had taken place, and assured the DTI that it was naturally quite at liberty to reject the accord.

Røsandhaug was out on Statfjord A on 20 June, but available by phone. The day before, when the letters to the governments were sent, Statoil had attended a meeting in the morning at the MPE in Oslo to review the matter and report progress in relation to the 18 June deadline. This session had been agreed well before 18 June.

There was general delight at the MPE when Statoil could report that agreement had been achieved. It was also briefed on the content of the six heads of agreement, and said it liked what it saw. The MPE envisaged no problems from its perspective, but was more concerned about what the DTI would say.

The MPE felt that the latter would undoubtedly be unhappy with the failure to achieve a change in the division of interests in the UK’s favour, and that it would find acceptance difficult. For its part, Statoil observed that the DTI hardly had any alternative. The MPE’s comments showed that it was more familiar than Statoil with the kind of reaction to be expected from the DTI.

When I spoke on 20 June to Røsandhaug on Statfjord A, he was both surprised and angry at the DTI’s reaction and took the view that Statoil was duty-bound as operator to report the result. He was very disappointed at the reaction and at the claim by Chevron that the letter did not accord with what had been agreed or with the outcome of the negotiations.

The British Houses of Parliament stand on the Thames in London.

Røsandhaug became very doubtful when I read out the proposed new letter desired by the British, and was decidedly unhappy with its content. He asked me to get in touch immediately with Pettersen. When the latter saw the British draft, he hit the roof and declared that he would never accept such a letter, nor could Statoil sign it.

In my conversations with him and Røsandhaug, we had also agreed that it would be problematic to give a presentation to the SUOC on 26 June, with both ministries present, and would have to clarify this ahead of the meeting.

The upshot was that I composed a new letter in which Statoil made it clear that the first missive had been a report of the negotiated result and that this in no way precluded the DTI from giving its approval in accordance with the normal rules before the agreement was implemented. At the same time, the letter made it clear that the agreement was also conditional on acceptance by the Norwegian government. This new text was sent by fax towards the end of the day on Friday 20 June.

All the participants in the negotiations also received a copy. I also told Cross that this was the furthest Statoil could go and, if the DTI was not satisfied, there was nothing more the company could do. Cross replied that she appreciated Statoil would not stretch itself any further, and that it was unclear whether this was enough to calm the DTI down.

In conversation with Cross, I then said that, since the DTI clearly had a problem if we announced the details of our agreement to the SUOC meeting on 26 June, Statoil would naturally say as little as possible about the content of the accord during that session. Chevron reluctantly agreed that this was acceptable to them.

Not much happened over the next few days, but Statoil learnt from the MPE that unofficial contacts between the two ministries indicated that the DTI did not like the agreement and possibly did not want to approve it.

In that context, the DTI had indicated that, if the present agreement – namely no increase in the British share – was the outcome, it might even by minded to approve DeGolyer and MacNaughton as the expert.

That was quite astonishing. The DTI had rejected the US consultancy in March 1996 because it maintained that more qualified experts could be found. Since it had then run up against a blank wall in its efforts to secure another expert, the department had reluctantly agreed that the two side should negotiate.

It had clearly expected that no accord would be reached, and that the issue would be returned to government level. If that happened, an expert clarification would still have been a possibility. Now that an agreement had been reached, the resulting package was not to the DTI's liking and it wanted a different outcome.

The MPE indicated that it was worried about what the DTI could come up with. It nevertheless concurred with Statoil that the Norwegian side would have to stick with the agreement which had been reached and await the DTI's consideration.

Both ministry and operator agreed that no indication must be given that the package could be reopened for further negotiation. It was also important to insist on the procedures enshrined in the Anglo-Norwegian treaty and the unitisation agreement, and not allow the DTI to resort again to evasive manoeuvres.

Internal agreement was quickly reached in Statoil that, since it could not say much in the SUOC on the accord, the company as operator for PL 037 would have to call a meeting of the licence's policy committee (all the Norwegian licensees, since five of the eight had been involved in the talks) in the early morning of 26 June. They could then be briefed on the content of the agreement ahead of the SUOC session.

The other licensees were surprised that Statoil could say nothing about the accord at the SUOC meeting, but accepted that the details should not be revealed there. They

expressed great surprise at the DTI's summersaults. Statoil replied that it shared their reaction, but that the world was like that and the result had to be approved by the DTI.

Action at the SUOC meeting was accordingly confined to a report from the operator that agreement had been reached and that the partners were awaiting consideration of this accord by the ministries and their approval. No other comments were made on the issue.

DTI consideration of the agreement

During the first few days after the 26 June meeting, it became clear that the DTI had been terrified that the fact of an agreement, and that a resolution of the issue had been achieved, should become public knowledge. It felt that withstanding the pressure which would follow knowledge that the partnership had reached an accord would be difficult.

The message was that the DTI intended to take plenty of time to consider the agreement. Two clarification meetings took place during July between the UK licensees and the DTI, where the partners were grilled.

Statoil learnt informally that the DTI had carefully reviewed the whole negotiating process, how positions had moved, and what had occurred overall. The company also heard that the DTI had expressed itself satisfied with the information it possessed after these two meetings and needed no further details on the issue. Later, however, it transpired that a number of additional contacts and meetings were required.

Statoil had a new contact with the MPE in late July. There were two reasons for this. One was that, if the British intended to observe the general 45-day deadline for a government response provided by the treaty, this would fall on 5 August. The other was the question of when the MPE should contact the DTI to learn when a response might be expected.

The MPE and Statoil agreed jointly that there was no likelihood that the DTI would respond before 5 August. Since the UK summer holidays fell in August, no reaction could be expected in that month. The most practical solution was accordingly to consider getting in touch in early September.

Statoil was also asked by the MPE to prepare a description of the course of the negotiations, so that it also had an overview of developments since the DTI had clearly been interested in the negotiating process. This overview was submitted as agreed, and the MPE expressed itself satisfied with it.

In early September, Statoil again had unofficial contacts with the British licensees to hear how matters stood. The response was that they were as concerned as Statoil was over the lack of a response, and that they would contact the DTI to clarify when one could be expected. Their advice to Statoil was that it would have a negative effect if the Norwegian side put pressure on the DTI. They asked us to tell the MPE to wait. That was done.

A number of contacts took place during September between Statoil and the UK licensees. The question was actually what would happen if the DTI did not approve the agreement reached in June.

If the accord had not been approved before the end of 1997, the existing agreements would have to be observed. That would mean that repayment of the bank volumes would begin on 1 January 1998. The British licensees could then lose production revenue from Statfjord C after that date.

Another aspect of the problem by then for the UK licensees was what they should budget or plan for the coming year. By September, the whole industry was in the midst of its budget processes, and it was difficult for the British partners to explain that they did not know what the position would be. They accordingly planned to apply pressure to the DTI to reach a decision.

But the whole autumn of 1997 passed without much happening. The British licensees expressed ever greater concern during October and November at the lack of an

approval. Towards the end of November, Statoil received the first question about what it intended to do on 1 January 1998.

In that context, a development occurred on the British side. Conoco UK once again began to play a more active role, since Chevron had taken the lead on the division of interests. It had a couple of unofficial contacts directly with Statoil, after which the UK company said it would begin efforts to get the DTI to approve the agreement.

At the same time, a channel Statoil could utilise was opened via Norske Conoco. As mentioned above, this route had also been used during the negotiating process in the spring so that Statoil could assess the possible positions and standpoints the British licensees. It was now utilised to provide the British side with arguments they could use to explain to the DTI why it was important to get the agreement approved.

The Conoco companies could be employed as intermediaries because the group had licence interests on both side, and because it could see how destructive the whole conflict over the division of interests was for collaboration in the Statfjord Unit.

As early as the autumn of 1996, the US group had decided to work to bring the conflict to an end. It had been very positive for Statoil to have such an opportunity to gain an insight into the other side's positions. This naturally had to be done in such away that it would be impossible afterwards to prove what had gone on.

In early November 1997, I accordingly discussed with Conoco UK how a little more pressure could be brought to bear on the DTI so that matters were speeded up. We agreed that Statoil should write to Conoco UK to specify what the outcome could be at 1 January 1998 if the agreement had not been approved, and this was done.

Statoil stated that, if the accord was not approved by 31 December, the partnership would have to act in accordance with the existing agreements. This would mean that the Norwegian licensees would require the repayment of the bank volumes from 1 January 1998.

At the same time, the priority rules would revert to their original form. The British licensees would then be able to demand (if they so wished) a reduction in production from Statfjord East and North, even if they would lose in the long run by doing so.

The letter was written for Conoco UK to use with the DTI, which it also did. At the same time, both sides were fully aware that nobody wanted a conflict from 1 January 1998. In more popular terms, Conoco's Mike Henson and I concluded that the Norwegian and British licensees actually had a good grip on each other. Both sides could well contemplate squeezing even harder if a conflict arose. The discussion was accordingly about how to avoid that happening.

An SUOC meeting was scheduled for 20 November. After the meeting, Røsandhaug and I had a brief conversation about the position with Henson and Hall from BP. They explained that the DTI was unlikely to produce any clarification before 31 December. On the other hand, they interpreted the signals they were receiving as indicating that the DTI, at civil servant level, was prepared to approve the June 1997 accord.

Various possibilities were discussed, and it quickly became clear to Røsandhaug and myself that the British licensees were at least as committed as Statoil was to getting the agreement approved. Various forms of pressure and other methods were discussed. The talk went so far that Hall, half-jokingly, suggested that the British licensees could cancel their request of 28 April 1995 for a redetermination and thereby nullify everything which had followed.

Although that idea might sound appealing, the conclusion was that it might be difficult to cancel 1995, 1996 and 1997. But it emphasised that all the partners now wanted to put the whole conflict behind them and devote their energies instead to the continued development of Statfjord.

The four of us agreed that the British licensees would have to work to get the DTI to complete its process and approve the agreement. For its part, Statoil would help them as much as it could while keeping the Norwegian government informed.

Statoil had a meeting about the issue with the MPE on 2 December. The day before, the company had learnt from the British partners that a recommendation on approving the agreement had now been prepared by the DTI but that it was very uncertain when a political decision would be taken. The issue would now be submitted to the minister.

At the meeting with the MPE, it was agreed that the time was now right for the latter to get in touch with the DTI and express concern about the lack of an approval. The MPE said it would do this.

The next couple of weeks were devoted to discussing how to deal with the position on 1 January 1998. A number of solutions were considered. As early as May 1997, I had prepared a draft interim agreement which Statoil intended to enter into when an accord was reached. This had been sent to Cross at Chevron on 18 June.

One of the reactions from the DTI to the June agreement had been that the British partners must not sign any kind of document until it had had assessed the accord and its consequences. So the draft interim agreement had been left on the shelf, and nobody had done anything more with it.

Conoco UK now raised the question of whether this draft should not be reviewed, amended and possibly signed in an agreed version so that the partnership had a written accord. On the other hand, it was difficult to sign anything at all before it was clear that the DTI would approve the settlement.

Given that no approval had been received from the UK government, the partnership had agreed as early as September-October that everyone should budget as if the agreement had been sanctioned. What Conoco UK wanted to achieve was an assurance that the Norwegian partners would stick to the accord even if government approval had not been received on 1 January.

The position was beginning to become a little unusual. Some of the points on which agreement had been reached were admittedly due to be implemented on 1 January. If the Norwegian side signed an interim deal which implemented what had been agreed, however, the pressure on the UK government to approve the deal would be removed.

For their part, the British partners were terrified that the Norwegian side would demand that the repayment of the bank volumes should begin on 1 January while simultaneously ignoring the change in the priority rules and maintain maximum production from the satellites. They would thereby lose at both ends. Although the British could demand that Statfjord Unit oil had first priority on Statfjord C, they would lose by creating difficulties.

Statoil accordingly had little desire to sign an interim agreement and thereby ease the pressure on the UK government over approval. Such consent would have to be given at one point or another for the process to be completed, and it would be better if this was sooner rather than later.

After a lot of shilly-shallying, Statoil proposed that the operator should write a letter to the partners, copied to the ministries, which declared that it would abide by the principles in the June accord for an initial period of 1998 but would reassess the position at the end of January. The Norwegian Mess negotiating team was called to a strategy meeting just before Christmas 1997 to discuss this proposal, which was approved by Shell, Mobil and Esso.

While these discussions were ongoing, the DTI and the MPE met in London on 16 December. This meeting had been requested by the MPE to emphasise that the patience of the Norwegian side was now almost exhausted, and that a clarification was anticipated. This was in line with the approach which Statoil had discussed with the ministry on 2 December.

The MPE also regarded it as important to lay responsibility for the delay over approval at the DTI's door and to make it clear that any possible problems had been created by the British government's failure to respond.

The DTI confirmed at the meeting that it had a recommendation ready on approving the principles in the agreement, which was with the minister for final clearance. What it could not guarantee, however, was when the formal clarification would be available.

The DTI then came up with a rather surprising supplementary request – since approval was now so close, it hoped that the MPE could help to ensure that Statoil as the operator or the Norwegian licensees did nothing after 1 January which would create problems. The MPE, which was appraised of what Statoil intended to do, said it would take this request up with the latter.

Since what Statoil intended to do was in line with what the UK partners also wanted, a discussion arose about whether the British side should possibly reply when the operator sent its letter by either approving it or giving a positive response. After a little thought, Statoil decided that this could cause confusion and asked the partners to refrain from any such action.

A shrewd approval process

In the run-up to Christmas, I used the time to call all the Statfjord partners to tell them that a letter would be coming from Statoil and that, when it arrived, none of them were to answer or comment on it but remain completely quiet. In this way, it would be noted that all the licensees – both Norwegian and British – indirectly supported Statoil's initiative.

In purely formal terms, this is called silent acquiescence – in other words, the action is approved if nobody has protested by a given date. That could be important in legal terms if the need later arose to check what had really happened.

It was then important to see whether the DTI replied before Christmas. The latter had been informed that an answer must be received by 21 December at the latest, because this was when production plans for each platform in the coming month would be issued. After all, personnel on the installations needed a few days to prepare for the plans to be implemented from 1 January.

No approval had been received from the DTI before this date. Statoil issued its letter on 29 December to spell out what it would do from 1 January. This communication was greeted with deafening silence, and 1 January came and went without problems.

On the afternoon of Monday 5 January, I received an informal call from Henson at Conoco UK over an issue which had arisen. The DTI was now ready to approve the agreement reached on 17 June 1997, but had a formal problem. What was it actually to approve? The DTI had never formally been sent the agreement by the operator.

I was almost speechless. My first response was that the irony had come almost full circle. The DTI had never been sent the agreement because it had asked Statoil in June to do nothing before it had assessed whether it could approve the accord. Statoil's first letter to both governments in June had precisely been couched in general terms because it was intended to present the results to all the licensees and the governments on 26 June. The DTI had forbidden such a presentation.

As operator, Statoil had loyally observed the message it had received and therefore submitted nothing. Nor had a formal submission been requested at any point.

Henson said that his reaction had been almost identical, and that Peter Kershaw at the DTI had almost begged forgiveness for the request because he was aware of the previous history.

After a little discussion, Statoil and Conoco UK decided that two options were available. One was to assemble all the licensees in a formal signing ceremony for an interim

agreement which included all the heads from June and then send this to the two ministries. That would also be a little unusual, given what had happened in June 1997.

Observing normal notification routines and meeting notices, circulating a text in advance and ensuring that everyone had the necessary authority to sign could take from 14 days to two months, depending on how much pressure could be brought to bear for swift action. Given that Statoil's letter of 29 December had said that the position would be assessed at the end of January 1998, this would be a risky route to choose since it could take time. What was required was quick approval from the DTI.

The other option was to propose that Statoil, as the Statfjord operator, wrote a letter to the two ministries in which the heads of agreement from June were listed and explained. Since the formal communication on all aspects of this issue, also in accordance with the unitisation agreement, had been between the operator and the two governments, this option was available.

However, I emphasised that I must contact the MPE informally to hear what it thought before I proposed anything at all. Henson and I accordingly agreed to talk again the following morning.

I took immediate contact with the MPE in the shape of its observer in the Statfjord Unit. His first reaction was incredulity, since the MPE was only awaiting the signal from the DTI that it intended to approve the agreement. The MPE would then ensure that its approval was given simultaneously.

But the MPE also had a problem. Director general Gunnar Greve was on a course abroad and would not be back until 12 January, Since he was responsible for oil matters and thereby also for this issue, he had to be consulted before the MPE could provide its view. That would be available on 12 January.

On that basis, I contacted Henson the next morning and asked to convey to the DTI that Statoil proposed to write a letter to the ministries spelling out the content of the agreement, since all the partners had already accepted it in June 1997. If such a letter was what the DTI needed, it could be available on or immediately after 12 January, when we had received informal approval from the MPE.

Henson called back after a few hours and said that Kershaw felt this would solve the problem for the DTI. I then asked Henson to say that such a letter would arrive in about a week's time.

After a brief contact on 12 January, the MPE said that this approach was fine but did not quite understand why such a letter had to be written since the DTI had been told the content of the agreement as early as June 1997 – in the same way as the MPE had. I pointed out that we in Statoil agreed wholeheartedly, but that we were happy to do this if it was necessary to secure a timely agreement.

After a good deal of very informal discussion, including with the three other Mess companies, the letter was sent to the two ministries on 15 January. All the Statfjord partners received a copy.

Conoco UK reported back almost immediately that the DTI was very satisfied and that it would now draft a proposed response, which would be coordinated with the MPE. Statoil received a draft from the MPE on 19 January and was asked if this looked acceptable.

After from some trivial comments, Statoil replied to the MPE that this looked fine and that it would be very happy to receive such a letter. The MPE said it would report back to the DTI and agree on a time to send the letter in such a way that this arrived simultaneously from both ministries.

Another question cropped up in Conoco UK's response. The DTI had asked what Statoil intended to do about a possible public announcement of such approval. I replied that we had no plans to go public with anything at all, and that I assumed none of the other

partners had an particular desire to say too much externally other than that they were pleased that the issue was now finally clarified. In addition, I said that government approvals were a matter between the two ministries and that, if they wished to say anything, it would be up to them. A possible press release should come from the ministries.

I was also in contact with the MPE on the same issue, and it said there was no desire for publicity but that it could happily collaborate on a joint press release should the DTI so desire.

Via Conoco UK, I was given to understand that publication was a matter of concern to the DTI and eventually heard that it was worried about what Statoil might come to say. I formed the impression that the DTI was relieved that Statoil did not intend to do anything. My comment was that the company had to continue to live with the DTI after this, and had no desire to do anything which might offend it.

I also observed to Røsandhaug that the whole redetermination issue had been of such a character that uncommonly good insight would be needed to understand and possibly convey the significance of obtaining the DTI's approval for a conclusion of the whole process without any change in the division of interests between the two countries.

This was unlikely to be an issue which would engage the media, I added, and said it was hardly in Statoil's interest to go to journalists with the slant that the British, and the UK government in particular, had been forced to beat a substantial retreat in relation to the original demands for an increase in Britain's share. Røsandhaug agreed with that assessment.

Two identically worded letters received on 29 January from the two ministries stated that the agreement of June 1997 was approved in principle, conditional on the necessary amendments being made to the formal written agreements which were affected, and on such amendments being approved in turn by the governments.

The proposal for necessary amendments to the unitisation agreement was approved by the partners in the spring of 1998, and the formal changes signed in an SUOC meeting on 18 June 1958. Confirmation that both Norwegian and British governments had approved the amendments to the agreement was received in early August 1998.

The final redetermination process for Statfjord was thereby over.