



Unrevised transcript of evidence taken before

The Select Committee on the Arctic

Inquiry on

THE ARCTIC

Evidence Session No. 8

Heard in Public

Questions 98 - 115

MONDAY 15 SEPTEMBER 2014

1.50 pm

Witnesses: Mr Rúni M Hansen and Mr Erik Haaland

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Members present

Lord Teverson (Chairman)
 Lord Addington
 Viscount Hanworth
 Lord Oxburgh
 Lord Soley

Examination of Witnesses

Mr Rúni M Hansen, Vice-President, Arctic Unit, and **Mr Erik Haaland**, Leader, Arctic Non-Technical Risk, Statoil

Q98 The Chairman: I welcome our witnesses from Statoil.

Mr Rúni M Hansen: Thank you very much. First, I am pleased to be here with you. We hope to have a good time for the coming 45 minutes. I am Mr Rúni Hansen. I am actually from the Faroe Islands and working for Statoil, commuting between the Faroes and Oslo for the time being. I am the vice-president and head of the Arctic Unit in Statoil.

Mr Erik Haaland: I am Erik Haaland. I work for Rúni. My responsibility is non-technical risk, which includes stakeholder relations, government affairs, communications and sustainability issues.

The Chairman: Okay, good. Is there anything you would like to say to start with? You do not have to, but you can if you like.

Mr Rúni M Hansen: We could do it like this—I do not know the framework for these things or which way you would like to do it. I could just explain why we are in the Arctic and how we see the Arctic, if you want. How do you want to do it?

The Chairman: That would be useful, but if you could keep it to five minutes at the most, that would be great.

Mr Rúni M Hansen: I will keep it to five minutes, that is no problem. It is quite important for us, when we are talking about the Arctic—as you said at the beginning, there are some issues with the Arctic—to say that Statoil has been in the Arctic for many years. We would like to divide the Arctic into three categories, because the Arctic is not only the Arctic as many see it. The first category is the workable Arctic. It is the Arctic where we have hardly any ice, for example, the Barents Sea. We have been there for more than 30 years, drilling more than 100 wells in this part of the Arctic. We can also add the sub-Arctic with the east coast of Canada, where we are currently drilling as well.

The next category is the stretch Arctic. That is where we need some more technology, but we are still present there with exploration, for example, in the Beaufort Sea in Canada. Then we have the third category of the extreme Arctic. That is where you have ice most of the year, or for many months of the year—for example, in north-east Greenland—where we do not see that we will have any development for the coming many years. You can also see that from our licence period in north-east Greenland: it is 16 years, so it is a very long perspective.

It is very important for us to keep this in mind, to see that there are different challenges in the Arctic. In some parts, like in most parts of Norway, we can see that the development of the industry has gone from shallow water to deeper water and to more challenging areas. It is very important for us to take a step-by-step approach in these different categories. We must not go faster than technology allows us to in the Arctic.

I just mention my third point, after the categories and the step-by-step approach. Collaboration is very important in the Arctic between industry, academia and subcontractors and everyone, not least the local people in the Arctic. The way we have been doing it in northern Norway is very much in co-operation with local communities. We see that to be crucial in our development of this region.

For my final minute, I just say: why do we as a company want to be in the Arctic? It is very simple—we can see that the world needs energy, and will in future as well. Although we are trying to have more of other sorts of energy, such as wind energy, we can see that fossil fuel will be a big part of the energy mix for the future. To take 2040, for example, we believe that 60% of the energy mix will be fossil fuel, so we will still need a lot of energy in future, and current fields are declining, so just to fill the gap, we really need more energy, and we know that 25% of the resources that remain to be found are in the Arctic. That is the big picture of our view of the Arctic.

Q99 The Chairman: Excellent. In fact, you have answered part of the first question that I was going to ask which was about the distinction between those three areas, so I will not ask it. That is a very logical way for Statoil to look at the Arctic. We are always reminded not to see the Arctic as one homogenous area. Do other energy companies make those same differentiations, do they see it in the same way?

Mr Rúni M Hansen: Let me put it like this. It is very difficult for me to say exactly how they approach the Arctic and what they are doing, but for us as a company, because we are—or at least we have been—a Norwegian company, we take a stepwise approach to the Arctic. It is difficult for me to answer for the rest of the industry, but of course some other companies have been in the Arctic for many years and know the Arctic environment and circumstances. I am sure that they are aware of that, but whether they approach it just exactly as we are doing is hard for me to say.

Q100 Lord Oxburgh: To be a little more specific, would you like to comment on how the Barents Sea fits into the Statoil future strategy?

Mr Rúni M Hansen: The Barents Sea is a core area for Statoil. We have been there for many years. Let me give an example. We were drilling at the beginning of the 1980s in the Barents Sea and we made a gas discovery, Snøhvit. The first discovery there was in 1982 and it came

on stream in 2007, so we used to say that our approach was not a sprint but a marathon. So we already have production in the Arctic in the Barents Sea. In some ways, we can say that the Barents Sea is the gateway to the Arctic for Statoil. There is no doubt that that is an area of focus for us. We have been there for many years. We have been drilling more than 100 wells in the Barents Sea. That is part of our stepwise approach to the Arctic: starting with the Barents Sea, the easiest one.

Q101 Lord Soley: Can you tell us a little more about the technological problems developing the Skrugard field and how much they go beyond the norm?

Mr Rúni M Hansen: The Skrugard field was discovered three years ago, so we have not started development yet or made a decision on development. The Snøhvit field, which we started in 2007 and which is on stream, is a gas field about 140 kilometres north-west of Hammerfest, and everything comes onshore there to the plant. With the Skrugard field, we made a big oil discovery there and we have not made a final decision whether to develop it yet.

Lord Soley: Is that because you are unsure of the reserves there; is it because of the technological difficulties of doing it; or is it for environmental reasons and problems?

The Chairman: Or just that the world price of everything has dropped?

Mr Rúni M Hansen: Yes, exactly. It is very much like that. We are trying to prove even more resources there. That is the reason that we have had a drilling campaign there recently: to prove that there are even more resources. It is more that, to say it very simply, big costs require big resources or big volumes. That is very important for us. If you know about the politics around these things, there has been a little bit of discussion around the Skrugard development, so it is also something to do with the commerciality around the field but, technologically speaking, it is the same as many other fields in Norway.

Q102 Lord Addington: What scope has there been for co-operation with Russia and other international partners within the Norwegian sectors of the Barents Sea? What scope is there for international co-operation with Russia and Russian companies and others within Norway's territorial waters? How much have you co-operated there?

Mr Rúni M Hansen: We have co-operation with many oil companies in the region. We are the biggest and strongest one here in Norway. In all our licences in the Norwegian Sea we have a lot of partners, as well as in the Barents Sea. It is more or less like everywhere else in the world; we reduce risk by having partners and getting knowledge. Our co-operation with international oil partners in Norway is the same as everywhere else in the world. I do not know if I have answered your question.

Lord Addington: The question was really about Russia because it is such a big part of the equation in the Arctic. Are there any particular Russian aspects that come to mind?

Mr Rúni M Hansen: Norway has solved the border with Russia. We made a co-operation agreement with Rosneft around two years ago, so we help them to find wells in the Okhotsk Sea and one well in 20 or 21 in the north Barents Sea. We have had close co-operation with Rosneft during that agreement.

Lord Addington: So you are effectively saying that it is normalised?

Mr Rúni M Hansen: Yes.

The Chairman: I suspect that if we have time later we will come on to some of the current political and sanctions issues around that, but we will leave that for the moment.

Q103 Viscount Hanworth: Some people might see a contradiction between the heightened environmental consciousness of the Norwegians and the fact that one of their main sources of wealth is from fossil fuels that are largely responsible for global warming. Is Statoil concerned about local and international environmental opposition to its drilling in the waters

of Lofoten and perhaps further north in the Barents Sea? Do you have any great concerns or consciousness of such opposition?

Mr Rúni M Hansen: We are very conscious of this issue. As we were saying at the beginning, our company's footprint for the oil and gas industry is probably one of the lowest in the world.

Lord Oxburgh: Sorry, how do you define "footprint"?

Mr Rúni M Hansen: Exactly. We have been discussing that. However, if you look at the Norwegian requirements, they are very high compared with many other parts of the world when you look at operations, HSE standards, rig standards and so on. Those standards are very high in Norway compared to many other parts of the world. We are very aware of the things that you mentioned and, as I said, we will not go faster than technology allows us to. We are not going to take a bigger risk in the Barents Sea than we take in the southern part of Norway. That is quite obvious to us and is something that has our highest focus because there is no room for error in the Arctic for us as a company.

Viscount Hanworth: Can you boast of a good safety record?

Mr Rúni M Hansen: Yes, fortunately. That is still our highest priority in the Arctic.

Q104 Lord Soley: Do you do any work on alternative energy sources? Are you involved in green energy at all?

Mr Rúni M Hansen: Yes, we have a focus on green energy. Actually, in the UK our focus is very much on offshore windmills. We are in Scotland now—we have just made a decision to build there—and offshore from the UK.

Lord Oxburgh: Offshore in East Anglia.

Mr Rúni M Hansen: Exactly.

Lord Soley: The evidence that we were given this morning on climate change, which is something that we know about but it is always very stark to see it, shows that there has to be

some limit on the use of fossil fuels at the end of the day. Do you take that on board or do you think that it is always going to be fossil fuels?

Mr Rúni M Hansen: If you look at the scenario for the two-degree UN goal, we can see that even in our scenario in the future in 2040 we still see a need for fossil fuels. Even though fossil fuels will still be a lesser part of the energy mix, there will still be demand for energy, not least because of development in the rest of the world.

Lord Soley: So is your company worried about climate change?

Mr Rúni M Hansen: Yes, our policies are very much focused on climate change.

Viscount Hanworth: Do you believe that in the end Norway will have to depend upon nuclear fuel? If so, would you wish to participate in such an enterprise?

Mr Rúni M Hansen: Oh, that is a very big question, and I will avoid answering it if I can. It is difficult for me to say.

Q105 The Chairman: Let us move on. I am interested in your comment that Statoil operates primarily but not exclusively within a Norwegian jurisdiction and you have very high standards, as indeed does Norway itself. In the Arctic, does the regulatory framework vary a lot between the five Arctic Council littoral states? If I could follow up on that, with regard to the disaster side, we in the UK are particularly aware of Deep Horizon and the BP issue. Obviously there was desperate corporate damage there in terms of reputation and environmental problems, and a whole question mark over marine exploration or drilling. Why should it be any different here from down there? This comes back to the point that Norway might be great in terms of its regulation, but is that also reflected around the polar circle?

Mr Rúni M Hansen: Let me answer like this: in our daily work, especially in Norway, there are high requirements. Our internal requirements very much accord with that; indeed, they are probably higher than the external legislation. That means that we do not compromise when we go outside Norway, which we do—we have made big discoveries in Canada and other

places. We are not going to make any compromises with our internal requirements, which are also to the Norwegian standard. That is quite important for us. We are not going to say, “Now we’re in a different country...” We will have the same internal requirements wheresover we are in the world.

The Chairman: Okay, but given that not everyone might have the same level of standards in the oil industry and there are issues elsewhere, I come back again to the regulatory regimes elsewhere in the Arctic. Are they as high as the Norwegian ones?

Mr Rúni M Hansen: There are different requirements, but most of them in the Arctic are quite high. Or even all of them. You can see Greenland—

Q106 Viscount Hanworth: Could you possibly lose a partnership with another company in consequence of your higher requirements for regulation and safety?

Mr Rúni M Hansen: Could we lose a partnership? Yes.

Viscount Hanworth: Has it happened?

Mr Rúni M Hansen: We would not go on compromising. We are always in partnership when we drill wells but we will not compromise our internal requirements at all in our industry. We need to stick to our internal requirements when we drill or do seismic—

Viscount Hanworth: Have you ever ceased a partnership as a consequence of your concerns about the safety of the enterprise and its environmental safety?

Lord Oxburgh: It does not work that way.

Viscount Hanworth: I know; that is why I am putting the question.

The Chairman: I think that Stephen already asked you this question, but has Statoil itself ever had an oil spill on the continental shelf at all?

Mr Rúni M Hansen: No. Erik, you can correct me.

Mr Erik Haaland: Yes, I probably will. I can take that question. We have had spills but never one that has reached shore. We have had nothing even resembling the scale that you saw with

Deep Horizon; they have been fairly minor. There have been a couple over a 45-year period on the NCS, but nothing has ever reached shore.

The Chairman: How long ago was that?

Mr Erik Haaland: The last one was about five or six years ago, I believe, at Statfjord.

Viscount Hanworth: Can you tell us where?

Mr Erik Haaland: It was the Statfjord field on the southern part of the Norwegian continental shelf.

Viscount Hanworth: So it should be an easy place to drill.

Mr Erik Haaland: This was not during drilling. It was a faulty loading buoy that led to the spill.

Q107 Lord Oxburgh: As you are probably aware, most of our group are not familiar with the way that the industry actually works, but would you like to tell us a bit about your joint ventures in the Norwegian sector? Do you operate significantly alone, or is it almost exclusively with JVs with other companies?

Mr Rúni M Hansen: I do not think we are drilling any wells in Norway with 100% ownership. That means that we have licences where there are other oil companies as well.

Lord Oxburgh: In terms of the way it has to go, someone has to actually run the drilling operation. Sometimes that is the responsibility of one company and sometimes a special purpose vehicle is set up to do that. How many of these are you actually operating?

Mr Rúni M Hansen: If you are asking about Norway, I do not have the percentages, but we are the operators in by far the most. However, we are also partners in some cases. We made a discovery at Wisting in the Barents Sea where OMV is the operator, and we are going on stream with the Goliath oil field in the Barents Sea where Eni is the operator and we are the partner. For most of them, though, we are the operator.

Lord Oxburgh: To elaborate on something that was said earlier, would you agree that in fact you and most of the big companies operate around the world to the very highest standards that anyone sets and you do not lower standards in a place that does not have such a rigorous regulatory regime? Would that be fair?

Mr Rúni M Hansen: I can only reply on behalf of Statoil, but that is a fair statement. We will not compromise. It is very much about a mindset in our company; there is no room for error. We do not want to compromise on these things at all. That is very clear to the whole company.

Lord Oxburgh: Can you give us any feeling for the range of companies with which you have JVs in the Norwegian sector?

Mr Rúni M Hansen: Most of the biggest companies in the world—certainly all the well known companies, such as BP, Shell, Exxon and Chevron.

Q108 Viscount Hanworth: I believe that you also had joint ventures with the Russians in the Russian sector, some of which have not borne fruit. Can you tell us a little bit about that and about the difficulty of operating in those conditions?

Mr Rúni M Hansen: Let us say that, in the Russian sector for offshore, we are talking about the Okhotsk Sea and the Barents Sea—we do not expect to drill in the Barents Sea until 2020 or 2021 in the Russian part of it, where we have a joint venture. We will just be shooting some seismics there. So far it has just been shooting seismics; we have not been drilling anywhere offshore.

Viscount Hanworth: Another question that I have to ask you is whether there were any ambitions to take it further in the first instance and whether those ambitions have been forgone.

Mr Rúni M Hansen: Our agreement is that we are going to drill wells in this offshore area off Russia in future.

Q109 The Chairman: I know that you are not part of the EU, but Norway has gone along with the EU sanctions so far. What difference have they made to the investment feel or even the legal context around investment in resources in the Russian Arctic?

Mr Rúni M Hansen: The world is changing all the time in its geopolitics. We will stick to our agreement and also with this sanction, where we are a part of it, we will stick to that.

The Chairman: But have the sanctions so far made it more complicated, given where you are at the moment?

Mr Rúni M Hansen: At least the external environment has changed for us.

The Chairman: Lord Oxburgh, you had a bit more about the UK involvement.

Lord Oxburgh: We have talked about the joint ventures and range of companies involved. It is all markets.

Mr Rúni M Hansen: With all the companies, such as BP and all of them, we have close co-operation—and very close co-operation with Shell, too.

Mr Erik Haaland: And smaller companies such as Cairn and Tullow.

Q110 The Chairman: The emphasis of the question that we are interested in is whether UK business and industry is taking enough of an interest in this area. Is it getting involved as much as it should? Is British industry being proactive enough? Is it getting noticed, or is it not really paying the Arctic enough attention?

Mr Rúni M Hansen: BP is quite active and technologically focused, but of course they have not been very visible in the Arctic lately. With British subcontractors, we are very much involved in the UK now; in Aberdeen we have just opened a big office, because of the Mariner and Bressay fields, which we are going to develop. In the UK, we are mostly using UK contractors. As we can see, there are many UK companies in this industry; it is very difficult for me to say whether they are more aggressive than American or German ones. But

our focus on the UK has become very high because of our development in Aberdeen now and because of our offshore windmills in the west of Shetland.

Viscount Hanworth: But we are asking another question—not your engagement with the UK, but vice versa. That is the issue, really. Are we providing services to you significantly, and what is the future prospect for UK industry?

Mr Rúni M Hansen: I have to say that when we talk about Aberdeen base—we had a discussion last week about the development of oil fields in the UK now, on which we are making a big decision—UK contractors will be very active there.

Viscount Hanworth: But what about here?

Mr Rúni M Hansen: They are still here, but I do not have the numbers of the distribution.

Mr Erik Haaland: A fair point that you can make is that the tougher areas of the Arctic require specific technologies and competence, which take years to build up, and some companies have that and some do not. If companies want to compete, they have to have that specialised competence or technology, and if UK companies do they will of course be able to do that.

The Chairman: You are saying at the moment that they are not really up to scratch.

Mr Erik Haaland: Probably less so than the littoral Arctic nations.

Lord Soley: What about subsea platforms and subsea work, where I thought some of the Aberdeen and other companies were rather advanced. Is that right?

Mr Erik Haaland: Absolutely. The whole UK and Norwegian continental shelf has been a great technology success story. It has been brought northwards; we take with us the technology that has been built to deal with the harsh environments in the North Sea. That is from UK and Norwegian suppliers.

Q111 Lord Addington: Briefly, how much do the changes in oil and gas demand due to the rise of Asia affect Statoil's decisions to invest in, say, LNG facilities as opposed to pipeline investment in northern Norway?

Mr Rúni M Hansen: We can see that demand for energy is growing, especially in that part of the world, when the developing countries have a higher economic standard. Your question is about how we develop regarding LNG and so on in northern Norway, due to increased demand in Asia.

Lord Addington: Yes, as regards pipeline investment in northern Norway.

Viscount Hanworth: Is there a trade-off? Are you looking in both directions or are you bearing eastwards?

Mr Rúni M Hansen: When we were building the Snøhvit development, that is LNG, the intention was to export it to America. Then you have the shale gas revolution and the market disappears; so now it is going to another part of the world. As for the discussion about the pipeline from Norway to the Barents Sea, that has been a very big one over whether we should have a hub or a pipeline.

Viscount Hanworth: So the hub would be located offshore.

Mr Rúni M Hansen: Yes.

Mr Erik Haaland: That is for oil, but I think that the reference is to a trade-off between building a pipeline all the way to the Barents Sea versus LNG. That is a resource issue; if you discover the resources, you will have to have that debate.

Q112 Lord Addington: But also with the rise of demand from a new sector, how far can you go? How far have you developed ideas there and how far will that change where you are looking? Are you looking to invest further east or in shipping facilities further east?

Mr Erik Haaland: One of the elements for our portfolio is that we have made some very large gas discoveries in eastern Africa, in Tanzania, which is of course closer to the Asian market than is northern Norway. That is being developed as an LNG project.

Lord Addington: So you have gone global and we are still looking up here.

Mr Rúni M Hansen: Yes. We have definitely gone global. We have made very big discoveries for some years in Tanzania. The Barents Sea is one part of our portfolio, but not everything.

Viscount Hanworth: Are you looking any further south than Tanzania?

Mr Rúni M Hansen: In Mozambique also.

The Chairman: I think that we will keep off equatorial Africa. That will have to be next year's Committee!

Viscount Hanworth: I have a particular vested interest.

Q113 The Chairman: Can I just come back to shale gas and unconventional oil, which has made a lot more reserves technically available for gas and completely changed the world market? Has that effectively, in terms of your stretch and third tier Arctic, meant that you will put it off for 30 years? Has it effectively closed down a lot of development potential in these difficult areas?

Mr Rúni M Hansen: Again, the external environment is changing all the time and it is affecting our view of the world. We have a global portfolio and, when we are looking at that portfolio and at the ones that are most economically viable, with the lowest break-even price, or however you define it, if you are getting competition or if you are in a sector with a lower cost, it is most likely that we are going to develop that. So all these things affect our view of the world. We have a lot of experience in the workable Arctic today and we produce resources from the workable Arctic in competition with the rest of the world. For some of the extreme Arctic we are far away from producing anything, because we need to develop technology and

to drive costs down. So it is an influence, but all the time there are different scenarios. It depends very much on the development of the different areas in the world.

Q114 The Chairman: I do not want to overemphasise the spill that you had, but I am trying to use it as an example. I am not trying to make too much of it because, clearly, you have an excellent track record in comparison with others. What lessons were learnt from that and how was that integrated back into your management of these things?

Mr Erik Haaland: That is one of the main things that we do. You see that in the airline industry and all large industries—taking lessons from incidents that you have and improving competence in people, as well as improving technology, how you survey and maintain things. In this specific incident, that led to a change of technology being used to ensure that it would not happen again.

The Chairman: The airline industry shares all that experience. Do you do that in this industry?

Mr Erik Haaland: Very much so. Safety is not a competitive advantage; it is something that you share. That goes for oil spill response and incidents. There are systems for sharing incidents and how you dealt with them.

Q115 The Chairman: We have two minutes left. I cannot resist asking one question that is not completely to do with the Arctic. If you take an investment decision in Aberdeen, which could be a state outside Europe, the United Kingdom and NATO, does that make you nervous?

Lord Addington: This will be published after the referendum!

Mr Rúni M Hansen: I am from a small society, from the Faroe Islands. When you talk about independence you can talk about the Faroe Islands and Denmark. That is the reason why I do not want to answer your question! When all these big companies and multinationals tell people that they should not do something, the experience is that they will do just the opposite.

So it would be very stupid of us as a company to tell the Scottish people anything about whether they should vote yes or no. We will say that, whatever the outcome, we hope to stick to the issue. It would not be very wise of us to put our fingers into these matters. If we as a big company were to recommend something, I am sure that people would do just the opposite.

Lord Soley: It is the heart versus the head.

Mr Rúni M Hansen: Exactly. So you must not quote me for an answer. What should I say about it? We are following it very closely. We are just starting in Scotland.

Lord Soley: The economic consequences would be serious—we should not have any illusions about it—but I understand what you are saying.

The Chairman: That is a very wise answer. Thank you very much. It has been very useful. We were very keen to speak to someone from the industry.

Mr Rúni M Hansen: It was very nice to meet you. I hope that you got something out of it.