

Carole Nakhle

CAN THE NORTH SEA STILL SAVE EUROPE?

Carole Nakhle, Dr., Energy Research Fellow, Surrey Energy Economics Centre (SEEC), University of Surrey, Guildford, Surrey, GU2 7XH, c.nakhle@surrey.ac.uk

Overview

The North Sea emerged as a key, non-OPEC oil producing area in the 1980s and 1990s. Its political stability and proximity to major European consumer markets have allowed it to play a major role in world oil and natural gas markets as well as being a reliable supplier for Europe. Yet today, Europe seems to be shifting its attention away from the North Sea and drifting into dangerous dependence on oil and gas from politically less stable areas. According to the EU Commission, if present consumption patterns continue in the EU, oil and gas imports are likely to increase significantly and dangerously over the next 25 years, with the bulk of them coming not from the North Sea but from Russia, North Africa and the Middle East.

It is correct that the North Sea is today described as a mature province, where production has peaked and the remaining reserves to be exploited are smaller and/or more technically challenging than those developed in the past. But a mature province is not necessarily a dying province that is slipping into history. Other basins, such as the Gulf of Mexico, have undergone similar up-and-down-and-up life cycles. The Gulf of Mexico has become one of the “hottest” exploration areas in the world, just a few years after it has been declared a “dead sea” for exploration potential.

Objective

This paper analyses the remaining potential of the North Sea (the UK and Norwegian shelves) and the factors that will determine the future of exploration activity in the province. But it also takes note of the wider regional potential offered by the opening up of the High North and the Barents Sea – an area probably able to keep Western Europe well supplied for many years ahead.

Methodology

The analysis is based on official forecasts and estimates of remaining reserves. It also considers the impact of various oil price scenarios on the exploration and production activities. It further assesses the impact of the fiscal package on the profitability, hence attractiveness of the province.

Conclusion

The North Sea’s role as a major oil and gas source is very far from ending. It is true that UK North Sea oil and gas deposits have been depleted very fast in recent years but in the North Sea as a whole, including the Norwegian sector, lot of discoveries are awaiting development. One third of its oil and gas reserves, as currently identified, have not yet been produced. Substantial opportunities could still be accessed. The limitations are profitability (largely determined by oil price and fiscal regime) and technology rather than resources.

The North Sea can either face a rapid decline, hence exposing Europe to an increasing dependence on oil and imports, or production can be sustained for a longer period of time, hence extending the benefits to consumers, companies and Government alike. The future of the North Sea depends on a combination of factors, namely: oil price, technology and the

petroleum fiscal regime. But for a more reliable, sustainable energy future, Europe must also look beyond the North Sea, where lies another sea of opportunities – the Barents Sea, which could change the geopolitics of both oil and even more of gas.

The Barents Sea could offer the US a stable alternative supply of both crude and LNG. It could change Europe's dependence both on the Middle East and Russia. For the UK, in particular, Norway is an obviously attractive and neighbouring source of gas that can and will contribute to the country's security of energy supply. Similarly, for Norway, the UK is an attractive and expanding future market that can be used to transport Norwegian oil and gas to other European markets, through the existing and the pipeline base extending from the UK to other European countries.