

# Development of Atlantic Gas Little Benefit to Ireland

## Historical Perspective: Norway and Ireland

Almost 35 years ago, the Norwegian parliament voted to establish a state owned oil and gas company and a separate state body – the *Norwegian Petroleum Directorate* – to oversee the management and development of the oil and gas resources on the Norwegian continental shelf. These measures were taken to ensure that any oil or gas fields discovered off the Norwegian coast would be developed in a responsible way and would benefit the people of Norway. When *Mobil* discovered the giant Statfjord field the following year (1973), it was obliged to take on *Statoil* – the state company – as a 50/50 partner in the development of the field. The Norwegians struck hard bargains with the oil companies. They introduced a supplementary tax of 50 percent on oil and gas profits, on top of an existing corporation tax rate of 28 percent. Production royalties were also payable. Monies received from the development of the oil and gas fields were put into a special fund which is owned by the people of Norway and currently totals some €154 billion. This is over 10,000 times greater than the paltry €15 million allocated by Ireland to renewable energy research in 2007.

Ireland was well aware of the approach being taken by Norway with regard to the development of its oil and gas

resources. In 1970, *Marathon Oil* discovered gas off Kinsale and negotiated a one-off deal with the Irish Government for the development of the field. When it was elected in 1973, the Fine Gael and Labour government immediately set about drawing up new terms that would be more favourable for Ireland. The incumbent Minister for Industry and Commerce, Justin Keating, was highly critical of the terms agreed between *Marathon Oil* and his Fianna Fáil predecessor. The new terms, which took effect in 1975, included provision for the Irish State to acquire a stake of up to 50 percent in any new find, production royalties of between 8 and 16 percent and the application of a corporation tax rate of 50 percent. There were also plans to establish a state-controlled petroleum corporation that would oversee the development of Ireland's strategic oil and gas reserves. These plans eventually were realised in 1979 when the *Irish National Petroleum Company* (INPC) came into being.

## Giving Away Irelands Assets

By this time however, Ireland had a new government and the winds of change were beginning to blow. As Keating's successor Des O'Malley admitted, he was not in favour of the formation of the INPC and only did so because Ireland needed to buy oil from

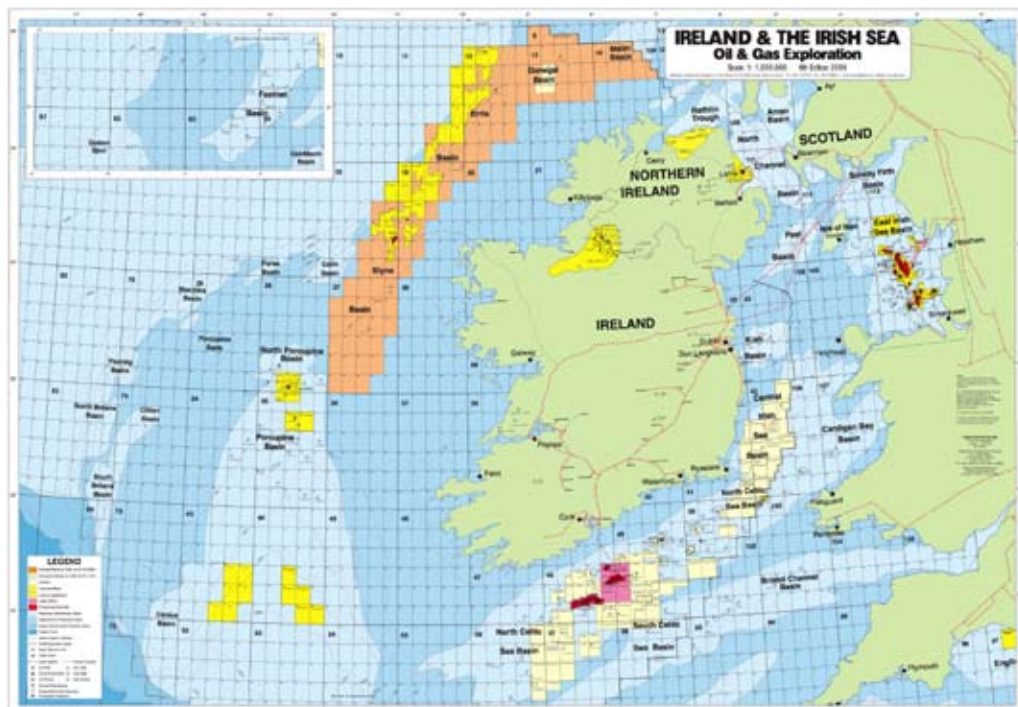
Iraq, and at the time the Iraqis would only deal with a state oil company. The INPC was not much more than a flag of convenience, and it was never given the resources or powers needed to properly oversee the development of Ireland's own offshore resources.

Ray Burke, who took over as Minister for Energy following Fianna Fáil's return to Government in 1987, announced new terms that included the removal of all state participation and all royalty payments from oil and gas production. He also introduced a 100 percent tax write-off against profits of all exploration, development and production costs for up to 25 years. Finally, in 1992 the then Minister for Finance Bertie Ahern reduced the level of corporation tax for oil and gas companies from 50 percent to 25 percent. Ireland's capitulation to the energy multinationals was complete.

According to Ahern, these remarkably generous terms were necessary to "improve Ireland's competitive position in attracting oil and gas exploration". It was strange then, that these changes took place against an international backdrop of increasingly tough negotiating positions being adopted towards the multinational oil and gas companies by the producer nations. The real reasons for the concessions offered by Ray Burke and Bertie Ahern have been the subject of much speculation but remain a mystery.<sup>1</sup>

## The Corrib Field

In 1996, the British company *Enterprise Oil* announced they had discovered gas in the Corrib field 3,000 meters below the seabed some 80 kilometres off the Mayo coast. It quickly formed a subsidiary company, *Enterprise Energy Ireland*, to take responsibility for developing the find. The development of the field was to be shared between three companies; *Enterprise Oil* (45 percent), *Statoil* (36.5 percent) and *Marathon Oil* (18.5 percent). *Statoil* was partly privatised in 2001 and the following year *Enterprise Oil* was taken by *Shell* in a deal worth \$6 billion.





Estimates currently posted on the Shell website suggest the Corrib field contains about “1 trillion cubic feet” (28 billion cubic meters) of gas, of which up to 80 percent may be recoverable. The gas is worth some €5 billion to €6 billion at current market prices. In international terms, the Corrib field is tiny: The world’s largest gas fields in Russia, Oman and Iran are hundreds of times bigger. Although Shell’s website also claims that up to 60 percent of Ireland’s gas needs will be met by the Corrib field and that it will have a working life of 20 years, the figures do not add up. For the field to last 20 years, the gas would have to be carefully rationed out. Even assuming no gas at all is exported to Britain, the field would last barely 12 years if it were delivering 60 percent of Ireland’s gas needs. Also, the percentage of the field that might be recoverable is impossible to accurately estimate in advance. Although it has been claimed that other nearby fields may contain up to 11 times more gas than the Corrib field, this is pure speculation. The theoretical presence of gas far under the ocean bed is no indication of economic or technical viability. The bottom line is that this resource, although very valuable, is little more than an energy stop

gap. It could easily be squandered in a few short years unless the Irish Government takes on a more responsible role.

The omens are not good. Since the gas was discovered the Irish State has bent over backwards to facilitate the exploration companies. Once a possible location for the gas pipeline to come ashore was identified, planning permission for a refinery and processing plant at Ballinaboy in North Mayo was rushed through with indecent haste by Mayo County Council. The permission granted appeared to be in breach of Local Government directives on sustainability. When the planning decision was appealed by local residents, An Bord Pleanála Senior Planning Inspector, Kevin Moore, was scathing in his assessment of the planning decision:

*“It is my submission that the proposed development of a large gas processing terminal at this rural, scenic and unserviced area on a bogland hill some 8 kilometres inland from the ...land fall location, with all its site difficulties, public safety concerns, adverse visual, ecological and traffic impacts... defies any rational understanding of the word ‘sustainability’”.*

As a result of recommendations made by Moore, the planning decision was overturned by An Bord Pleanála in spring 2003.

The decision was a considerable embarrassment for the Irish Government. Both it and the exploration companies had assumed planning permission was but a formality and construction work had already begun.

There was nothing in the script about refusals. In spite of this setback, all the parties involved clearly anticipated that matters would be resolved as soon as the right political pressure could be brought to bear. In a bid to save face with the exploration companies, Minister for State and Labour Affairs, Frank Fahy, announced that the project had been delayed on a “technicality”. Meanwhile, *Shell* complained that the “delay” was responsible for “additional costs of €100 million”. Earlier it had stated that an alternative option for processing the gas on a shallow water platform off the Mayo coast would cost €360 million and was not economically viable. However, when compared to the value of the Corrib Field, which has risen spectacularly due to the skyrocketing price of gas on the world markets, these costs are small.

In September of 2003, *Shell Europe's* chief executive, Tom Botts, and other *Shell* representatives met with members of the Irish Government, including An Taoiseach, Bertie Ahern. Botts emphasised the need for construction work to begin by the following summer and for gas to be coming ashore by 2006 for the project to be “economic”. Later in 2003, a high-level meeting took place between top Irish planning officials and executives representing *Shell*, *Marathon* and *Statoil*.

A new planning application was subsequently drawn up and submitted. Some of the issues that had brought about the downfall of the earlier application had been addressed, but essentially it was the same application for an identical development in precisely the same location as before. In April of 2004, Mayo County Council duly granted approval to the new application. Feeling that none of their legitimate concerns about health, safety and environmental issues were being properly addressed, local residents appealed the decision to An Bord Pleanála. This time, however, they were unsuccessful. In many respects, the decision was a foregone conclusion.<sup>2</sup>

Local opposition to the proposed plant at Ballinaboy and the high-pressure gas pipeline that will supply it has gathered momentum in the last two years. An ill-advised decision to jail five landowners opposed to the pipeline crossing their land created a lot of adverse publicity for both the government and the exploration companies. When work at the proposed plant recommenced in autumn 2005, a daily picket was mounted at the gates of the construc-

tion site. Large numbers of Gardai have been deployed to break the picket lines and to ensure that the buses carrying the site workers can get through. In scenes reminiscent of the early days of the civil rights campaign in Derry thirty years ago, or of the British miners strike during the Thatcher era, civilians have been assaulted by baton wielding Gardai, acting with the full support of the Irish Government. In characteristic Orwellian double speak, Bertie Ahern has spoken of the need to “uphold the law.”

Even if the many environmental, health and safety issues connected with this project were to be resolved, which seems unlikely, big questions remain about the appropriateness of handing over ownership and control of such a valuable resource to corporate bodies whose sole aim is to increase their shareholders' profits. Corporate strategy in exploiting gas and oil reserves is based entirely on getting the most out of the ground in the minimum possible time, even though this may damage the field and reduce the proportion of the field that is ultimately recoverable.<sup>3</sup>

### A Moratorium on the Development of the Atlantic Gas Fields

In recent years, many countries have renegotiated deals that were previously agreed with oil and gas companies. In Bolivia, newly elected President Evo Morales simply sent in army engineers to take control of the gas fields. Following his announcement that a new tax regime (of up to 82%) would be imposed on foreign oil and gas companies, the same companies

were soon queuing up to sign the new deal. In Russia, *Shell* ceded control of the Sakhalin oil and gas fields to the Russian state company *Gazprom* after a long but ultimately futile battle with the Russian authorities. Although *Gazprom* paid *Shell* over €3 billion in compensation— a settlement that *The Guardian* (December 22, 2006) described as *Shell's* “worst case scenario” —this was peanuts when compared to the value of the resource. *Shell's* alleged environmental violations and mismanagement of the Sakhalin project were cited as contributing to its downfall.

While Russia and Bolivia have the capability to run the show themselves should the need arise, in Ireland the expertise and infrastructure simply do not exist. The best thing Ireland can do is buy time.

*Sustainability* suggests a two-year moratorium on development of the Corrib Field. This would provide space to rethink and reconfigure this whole project. The reintroduction of the original terms agreed with the exploration companies would be a good starting point, with overall control of development placed firmly in the hands of the Irish state. The gas should be processed and brought ashore at locations at which the environmental and social impact will be minimal. In order to use this resource most effectively, the gas should be used for domestic heating or for use in combined heat and power plants that can deliver heat as well as electricity. To pipe the gas straight into existing, inefficient gas-fired power stations simply does not make sense. It will be impossible for Ireland to adopt a logical, consistent and responsible attitude towards developing its natural resources until poor management decisions of the past are addressed. This will take time.

<sup>1</sup> Although no evidence has been produced that Burke acted corruptly in his dealings with the exploration companies, investigations by the Flood Tribunal found that he received corrupt payments from property developers and other business interests in the 1970s and 1980s. It also found that Burke's Ministerial Directive of 14 March 1989, obliging RTE to provide its facilities to Century Radio, was issued to advance the private interests of the promoters of Century and not to serve the public interest. The full report is available at [www.flood-tribunal.ie/images/Report.pdf](http://www.flood-tribunal.ie/images/Report.pdf).

<sup>2</sup> A more detailed history of gas exploration in Ireland can be found in the CPI (Centre for Public Enquiry) report: *The Great Corrib Gas Controversy* (2005). *Sustainability* has drawn widely on this report in compiling and writing this article.

<sup>3</sup> Extraction practices which resulted to damage to the Saudi oil fields are detailed in *Twilight in the Desert* by Matt Simmonds

