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Foreign Policy and International Aspects of  
Norwegian Oil and Gas.

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Norway is in a unique position as to energy. In addition to her rich hydro-electric resources (equivalent to 16-17 million tonnes of oil each year), she has vast reserves of coal on Spitzbergen. But above all, she has during the latest decade developed into the sole net exporter of oil and gas among the western industrialized countries. Norwegian shelf, even south of the 62nd parallel contains the most prospective acreage in Northwest Europe. As to the vast expanse of the continental shelf north of 62° (approximately 875,000 square kilometres), it is described as the best offshore prospect in the world.

Norwegian petroleum production, which is at present about 50 mtoe (representing 15 per cent of GNP and 30 per cent of total exports), will probably increase to 70 mtoe in the late eighties (20 per cent of GNP and 40 per cent of exports) and to 90 mtoe in the early nineties (25 per cent of GNP and 45 per cent of exports). The exploration drilling in the northern areas this summer indicates that the recoverable reserves estimate of 4,700 mtoe will have to be revised upwards substantially. At present, Norway is consuming ca. 9 million tonnes of oil a year.

From the point of view of foreign policy and international relations, the following aspects of Norwegian oil and gas activity seem most important:

1. The kind of relationship between the national and the international 'system' levels of oil and gas activity and economy: organizational forms, state control and participation, pricing policy, energy/industrial co-operation 'packages', etc.
2. Oil and gas policy as part of Norway's general foreign and security policy orientation: close relationships with the United States and Great Britain, participation

in the 'Atlantic' institutions (NATO, OECD, IEA).

3. The growing need to act independently: to assert and maintain Norwegian sovereignty over the vast 'new' areas; to take care of the role of being an ever more important net exporter of oil and gas with interests not always identical with the other OECD countries; to make up for not being a full member either of the IEA or the EC; to pursue a kind of dialogue also with the OPEC; to try to act as a 'bridge-builder' between the US and the EC in certain respects and between the oil producing and the oil consuming countries; and to secure national control of the exploitation of the vast energy resources for the sake of future generations.
4. Actual and potential conflict with the Soviet Union in the Northern areas, concerning delimitation of the Barents Sea shelf; the status of Spitzbergen; oil and gas activities in areas which are highly sensitive from the point of view of military security and strategy. Would bilateral cooperation be the right way of building down conflict potential?
5. The question of oil and gas pipelines and transport: the choice between/combination of a British, a Continental, a Scandinavian, and a national alternative. A short-term North Sea perspective, a long-term Northern areas (Norwegian Sea, Barents Sea) perspective. Will there be an EC pipelines system? Could landing in Jutland (Denmark) be a means of combining an EC system with a Scandinavian (Nordic) one?
6. Norwegian oil and gas in the broader European perspective, including the Middle East area and OPEC. The question of a common all-European pipelines system

for oil and gas, extending to the Middle East and Siberia, and the Northern areas in this connection. Would it perhaps be advisable for Norway first to try and strengthen the Scandinavian energy and industrial cooperation, thereafter to join a common West European energy cooperation scheme, and finally to engage herself in the establishment of a broader European solution? Or could these aims be pursued in parallel operations?

First, let me try to indicate in what ways the energy policy of Norway might be interesting to other Western countries. With a population of only about 4 million, but with the most prospective continental shelf in the world - the size is about 2 million square kilometres - it is quite clear that this country will become an increasingly important net exporter of oil and gas in the years ahead. A production level of 90 million tonnes per year, which is stipulated as a "moderate" rate of extraction and which probably will be reached in a few years' time, will cover about 15 per cent of West European petroleum import needs. This rate could no doubt be stepped up considerably if there were political will to do so.

In a time of scarcity, the primary question for other West European countries is, of course, if these resources will be available to help cover their own needs of stable supply, and in case on what terms. Then, there are several additional questions: How firmly will Norwegian oil and gas could be relied on? How will the supply deliveries be organized? With whom will Norway side in cases of conflict, between East and West? between the IEA and the OPEC? between the USA and the EC? Will Norway try to use her oil and gas as a means of influencing the foreign policy of other countries? What kind of pricing policy will she follow? How will she proceed to reconcile the aim of national control with the practices of the transnational companies?

For considering questions like these, we should bear in mind some basic facts of life.

There is a broad national consensus that Norway belongs to the Western economic and political system and that her oil and gas export primarily will go to other West European countries on the basis of negotiated agreements. There is no indication whatsoever that Norway wants to dissociate herself from the broader Western framework of cooperation. This is a deliberate kind of policy, completely in line with Norway's general foreign policy orientation and also with her participation in the Western international economic system as a whole.

Because of her strongly organized domestic welfare state system, and because of a very high degree of state interventionism to support vulnerable branches of industry, foreign economics are regarded as a vital and integrated part of Norwegian general foreign policy. And this holds true also for oil and gas activity. This is why I have listed the linkage or relationship between the national and the international economic "system" levels as a decisive one as to Norwegian oil and gas activity in a foreign policy perspective.

To understand this system aspect, one should bear in mind that the Norwegian economy is a relatively small and open one, very vulnerable and strongly interdependent with the other Western economies. It was clear right from the start that oil and gas would represent an increasingly large and dominant share of the economy as a whole. The question was, and is, therefore, how to develop this sector of the economy in a way compatible with both the national economic welfare state system and with the policy of growing international interdependence.

On the one hand, the Norwegian policy of state participation and governmental control in the oil and gas sector represents an extension of the Social Democratic welfare state system to a new and important field of economic activity. It is not meant to imply a break-away from Norway's established policy of interdependence with the other Western countries. On the other hand the economic organization of the oil and gas sector has served to underline the integration of the Norwegian economy as a whole into the broader OECD framework. This has been part of a deliberate security and foreign policy strategy, intended to secure for Norway continued cooperation with the other Western democracies, based on a community of interest.

In a security and foreign policy perspective I think, therefore that one should not pay too much attention to the quite natural and inescapable conflicts of interest at the practical level, as between state participation and state control on the one side and private company interests on the other, or as to rate of extraction, licencing policy, pricing policy, taxation policy, etc. As long as the Norwegian government in its oil and gas activity generally speaking obeys the "system" rules commonly agreed upon in the OECD and the IEA, and as long as Norway remains a reliable partner in NATO and the other Western organizations, it does not matter very much from this perspective whether the oil and gas activities are controlled by the state or not.

In this context, I think it is important to underline the extent to which Norway also in the energy sector has adopted what could be called the OECD domestic organizational pattern of interdependence. This pattern implies a reduced role of the Ministry of Foreign Affairs and a parallel ascendancy of the ministries concerned with economic policy, namely those of finance, industry, trade and - recently - energy.

The energy question is increasingly recognized as crucial to the survival of the Western world as a whole. The Energy Ministry as a consequence have increased its status and power inside the government. Although the Foreign Ministry formally retains its prerogative of drawing up the main guidelines of Norwegian foreign policy, the Oil and Energy Ministry will represent Norway internationally in all matters related to energy and oil and gas activity. It also administers the concession policy. The Ministry of Finance takes care of the taxation policy. Day-to-day questions of resources management and safety are dealt with by the Norwegian Petroleum Directorate. The business interests of the Norwegian Government in the petroleum sector are taken care of by Statoil and Norol. Statoil was established in 1972 as a fully state-owned oil company of a so-called integrated kind. Norol is a marketing company, established in 1976, with a state interest percentage of 86 (71% Statoil and 15% Ministry of Oil and Energy). Another company with state majority interest is Norsk Hydro, which politically acts more or less as a counterweight to Statoil.

Without going into details, I think it is fair to conclude that the effect of this splitting up and sharing of state participation and state control by several different agencies is to create a greater multiplicity of linkages between the national and the international level in such a way as to increase the interdependence between the national Norwegian system and the other Western economies. It serves, furthermore, to integrate Norwegian oil and gas activity into the general security and foreign policy framework of the Atlantic countries.

Perhaps nothing reveals more clearly the intentions as well as the inherent problems of this strategy of interdependence than the attempts undertaken by the Norwegian government at using the petroleum resources to stimulate Norwegian industry



also outside the oil and gas sector. The Norwegian Government has made clear its willingness to negotiate government-to-government deals, where oil and gas deliveries would be negotiated as part of a more comprehensive cooperation on energy and industrial matters. The difficulty, however, consists in translating governmental intentions into concrete enterprise actions in an international system where such actions traditionally are decided upon by private firms applying purely economic considerations.

The main purpose behind this part of the government's energy and industry strategy is to strengthen Norwegian industry also outside the oil and gas sector, through better access to advanced technology, know-how, and markets, in order to create a competitive industrial basis and more jobs in a long-term perspective. The fear is in many quarters that Norway because of rapidly rising wages and prices and because of the need to subsidize exposed and incompetent branches of industry in order to avoid unemployment, will be increasingly squeezed out of the markets, so that what remains will be sort of a "Kuwait economy". A long-term industrial cooperation with other advanced countries and tied to oil and gas deliveries would hopefully counteract this trend.

No government-to-government deals of this kind have as yet been concluded. The big tripartite Volvo-project fell through, but negotiations with Sweden continue, because there is a widely shared recognition in government circles in both countries of a community of interest in this field. The Swedish Volvo is still in the picture. Interestingly enough, this summer an agreement was reached between Volvo Energi AB and the Norwegian company Orkla Industrier to establish a joint development and investment company NORDEX A/S, owned by one half each and located in Trondheim. This might be a kind of a substitute for a government-to-government deal,

with the possibilities for the governments to enter into the agreement on a later stage.

Through NORDEX, Volvo Energi and Orkla will be engaged in supplying capital, technology, advanced management, market contracts, and possibilities for collaboration to firms involved in the offshore sector. In this way, the Volvo concern will become part of the interesting development one expects to take place in the Norwegian energy sector, perhaps especially on the continental shelf in North Norway. The recent merger of Volvo and the trading company Beijerinvest will strengthen the basis for an active Volvo engagement on the Norwegian shelf.

Similar negotiations have taken place between Norway and the other Nordic countries and also with the Federal Republic of Germany, France, and other European countries. These negotiations will be continued, but it is difficult to foresee what will come out of them. It seems as if it will be easier to negotiate an agreement with France than with the other EC countries. This is not astonishing, since the structure of French energy policy is more similar to the Norwegian one, especially as to the degree of government involvement.

As to the effects of foreign policy considerations on the policy of energy, the conclusion is, generally speaking, that Norwegian energy policy like Norwegian foreign economic policy and foreign policy in general is subordinated to the overriding goal of keeping Norway firmly within the Atlantic-oriented NATO and OECD framework. The deviations from the mainstream of Atlantic policy can be explained partly by national social system characteristics mentioned above, partly by foreign policy considerations of a more special kind. Norway, however, does not fit completely into the Atlantic framework.

In NATO, Norway maintains a special status due to her so-called "self-imposed restrictions" as to foreign bases and nuclear weapons in peacetime, in order to reassure Soviet Union of the non-aggressive nature of her NATO membership.

As to the EC, a mixture of foreign policy and domestically related motives lay behind the rejection by the majority of voters of Norwegian membership in 1972. Relations with the EC were instead based on a trade treaty. There was a strong and widespread feeling that membership might threaten district interests and the kind of social welfare system that existed, and that Norway would be dominated by the greater powers.

In the IEA, Norway preferred associated status to membership much for the same reason as in the EC question. In addition, there were fears that Norway as an oil and gas exporter might be drawn into a kind of confrontation policy with the OPEC countries, which would run counter to own economic interests and also risk jeopardizing Norway's good relationship with the Third World countries.

Finally, one should not forget the kind of "self-imposed restrictions" Norway has placed upon herself as to oil and gas development north of the 62nd parallel. Although never explicitly stated officially, there seems to be a clear recognition that the reason why exploration drilling in these areas was allowed to start only this summer and on a very modest scale, was at least partly of a foreign policy or international nature. There remains many unsolved questions/<sup>as</sup> to the delimitation of the shelf in the Barents Sea; to the international status of Spitzbergen and the shelf around it; to the question of pollution safeguards; to the possible impact of oil and gas activity on fisheries and fishing stock preservation. First of all, there is the question of how the Soviet Union might react

to extended oil and gas activities in the Northern areas, for instance to the presence of international oil companies.

The official stand of the Norwegian government is to regard Norway as a "united" country", as "one entity" also as to the shelf, having the same kind of rules and regulations applied north of the 62nd parallel as south of it. In practice, however, it has not allowed foreign companies to start development activities north of the 62nd parallel.

Presenting the main guidelines in the Parliamentary Report nr. 53 early in 1980, Oil and Energy Minister Bjartmar Gjerde stressed the need to supplement the policy of state participation agreements with agreements giving the national companies - Statoil, Saga and Norsk Hydro - sole ownership to the resources on the Norwegian shelf. The role of foreign companies would accordingly be to provide technology, capital and capacity. He said: "Organizational set-ups have to be found which ensure the Norwegian companies the control of activities at the same time as the economic interest of the foreign company is reasonably protected".

One might perhaps have expected a strong reaction on the part of the foreign companies to such a policy declaration. So far there have been no serious protests. Therefore, one can assume that the continental shelf north of the 62nd parallel will be explored and developed according to these new principles. This policy of national ownership and state control will probably make it easier to come to terms with the Russians as to the opening up of oil and gas activities in the Northern areas. But, as mentioned above, many questions still remain to be solved.

The most difficult problem in Norwegian/Soviet relations in the context of oil and gas is no doubt the delimitation question in the Barents Sea. This problem will have

to be seen in the larger East/West context, and I will return to this in a moment. In concrete terms, the problem concerns the conflict between two opposing principles, that of the median line - which the Norwegians stick to - and that of the sector line - which the Russians would like to see adopted. The difference between the two positions involves a not modest area of some 155.000 square kilometres, roughly equivalent to the Norwegian continental shelf below the 62nd parallel.

There was a meeting between the two parties in the spring of 1980 at the request of the Russians, but without any progress being reported from the negotiations.

One important aspect of the North Sea oil and gas activity is that of deciding how and where to land the gas. I will try to look upon this aspect from a broader European point of view, asking what difference it makes whether one chooses the one or the other alternative.

There are really five alternatives being discussed.

First, there is the British one, meaning that the gas also on the Norwegian side would be gathered into the British pipeline system.

Second, there is the Continental option, building a gathering line from Statfjord via Ekofisk to Emden in West Germany.

Third, there is the possibility of combining the Continental option with a Scandinavian one. Denmark last summer decided to land gas from its own offshore fields for inland use, and is now building a national distribution system which will connect with West Germany's network and could be extended into Sweden and eventually from Sweden into Norway. There have been discussions between Denmark and

Norway, considering the possibility of linking Norwegian offshore reserves by pipeline to those in the Danish sector, and thus bringing the gas ashore on the west coast of the Jutland peninsula.

Fourth, the gas might be brought ashore in Norway. The problem would then be, however, what to do with all the gas, because Norway does not need that much.

More likely than this fourth one is, however, a fifth possibility, namely to combine a gathering line to the Continent with a branch to Norway. This alternative seems to have gained stronger ground recently. There is disagreement, however, between Statoil and Norsk Hydro as to the place of landing in Norway, whether at Kårstø or at Mongstad.

The Norwegian government has announced that there will be a decision on the question of landing early next year.

What are the likely foreign policy implications of these alternatives?

The main options are on the one side the British one and on the other the Continental. The decision will be mainly a political one.

In my opinion, the British alternative would tie Norway more strongly to British European policy and might have important consequences for Norway's future relations with the EC, depending on what the British EC policy will be like, especially in the field of energy.

Given the close relationship between Washington and London as to security and other vital fields of foreign policy and also the widening gap between the United States and other leading EC members, the British landing alternative

will undoubtedly tend to give the US a stronger say in Norwegian policy-making.

However, as seen from a Norwegian point of view, it is unlikely that the association to the International Energy Agency (IEA) will have any significant effect on Norwegian energy policy orientation in a situation of US/EC conflict. On the whole, there is little indication that the IEA has had any significant influence at all on the higher level of Norwegian foreign policy-making.

On the other hand, there is a widespread recognition that Norway's dependence on NATO and the US defense guarantee could be used in times of crisis as an effective means to force Norway into adopting a more expansive oil and gas policy on American or Atlantic premises. The link between oil and gas activity and security in the North seems to become of rapidly increasing importance.

Much depends, therefore, on what will be the character of British European policy. If British oil and gas becomes an integrated part of an EC energy policy, and if Great Britain becomes truly European oriented, then the landing of Norwegian gas in England or Scotland would just mean Norway choosing a western route to the EC instead of a southern..

It is, however, difficult to imagine that Great Britain will opt for the EC in case of a conflict situation between the US and the EC over energy. This is why I think that the landing choice will make a real difference after all.

The Continental alternative would mean that Norwegian gas from the North Sea is to be tied to the Continental pipeline system on a long-term and permanent basis. Norway would become more a part of EC Europe, not only as to energy

matters, but gradually also with respect to foreign policy and security orientation in general.

The Scandinavian alternative is linked, as we saw, to the Continental one. It has an additional aspect, which under certain international conditions might be of rather crucial importance.

The participation of the neutral Sweden in a more or less integrated West European/Scandinavian energy supply system cannot be seen in separation from the East/West situation in Europe in general. It presupposes a continued policy of detente.

Considerations of this kind are bound to gain increasing relevance also for Norway as oil and gas activity on the shelf moves farther up north.

This in no ways means that the establishment of a Scandinavian system would make it more difficult for Norway to expand oil and gas activity in the North. On the contrary, if only for geographical reasons, activity of this kind on the shelf would require pipelines through Sweden and/or Finland down to the Continent. This shows that oil and gas activity in the North is closely related not only to the Soviet/Norwegian relationship and to the superpower situation in the North, but also to the East/West situation in Europe in general.

Without continued detente, there will be strong constraints to any activity of this kind in the North. Although both Sweden and Finland very much want guaranteed supplies of Norwegian oil and gas, it is difficult indeed to imagine that these countries will engage themselves on a long-term basis in such vital schemes without a sure conviction that this will be compatible with their status as neutral countries.



This leads me to my last point, that of a broader European European energy cooperation. This perspective, so far, has been very little discussed in Norway. The Government as well as the parties in opposition have refrained from opening such a discussion, and more so because of the aggravated East/West situation. The main reason for this is undoubtedly the feeling that Norwegian initiatives in this direction might not be consistent with the aim of western consolidation, thus threatening vital Norwegian security interests. Soviet proposals of a largescale cooperation in the North tend to strengthen suspicion and fear of this kind. In the foreseeable future, therefore, one cannot expect Norway to undertake any concrete initiative on the all-European energy road.

In a longer-term perspective, it seems probable, however, that there will be some kind of accomodation with the Soviet Union as to oil and gas related activity in the North. This will probably not take place as a purely bilateral Norwegian/Soviet arrangement, but only as part of a wider regional cooperative regulation, comprising both East/West and West European/Middle East relations.

The Western countries will for the foreseeable future continue to be dependent on Middle East oil. So there is a need for a more firmly based supply system, linking the Middle East and Western Europe together. An East/West pipeline system is already in operation supplying West European countries with Soviet gas on an rapidly increasing scale.

Norway is for obvious reasons vitally interested in a kind of European energy cooperation which includes both these dimensions, i.e. cooperation both with the Middle East oil exporting countries and with the Soviet Union. By tying the

prospective Northern areas to a common all-European oil and gas supply system, one could hopefully achieve that the stability in these areas would improve, simply because the maintenance of the system would become of vital importance to all European countries. In this perspective, an all-European energy conference seems to be a proper measure. Extended to include the Middle East, such a system of cooperation would again make Europe more central in world policies. Its chances of being established seem to depend first and foremost on EC developments.

In such a broader perspective of cooperation, the obvious strategy for Norway should be to continue its policy of government control, to cooperate as closely as possible with the other Nordic countries and then through a broadly based coordination with the EC countries to contribute actively on the development of the wider system of cooperation together with the AOPEC and the Eastern countries.



