

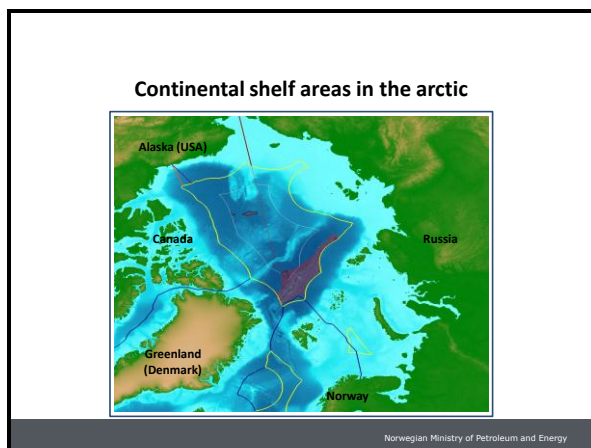
# Norwegian petroleum policy – the Arctic

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Brookings Institute, Washington D.C. 9 November 2012

Dear audience,

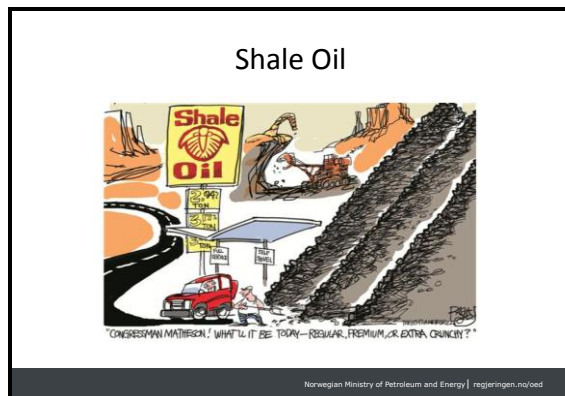
- It is a great pleasure for me to hold a presentation on the Norwegian Petroleum Policy in the Arctic here at Brookings. One of the most respected, trusted and quoted think-tank's in Washington D.C. I have been looking forward to this, and I am pleased to see so many of you here for this event.



- Initially, before talking about our oil & gas policy in the Arctic, I feel it is necessary to emphasize that there is no race for the Arctic, and that the Arctic is no lawless space. I sometimes get the impression that the common understanding is the opposite. Well, that is incorrect. The Arctic is governed by five countries, namely, Russia, Norway, the US, Canada and Greenland.
- One possible outcome of meeting claims under the UNCLOS (United Nations Convention on the Law of the Sea) for continental shelves may leave less than ten percent of the Arctic Ocean not under coastal state jurisdiction – the shaded area on

the map.

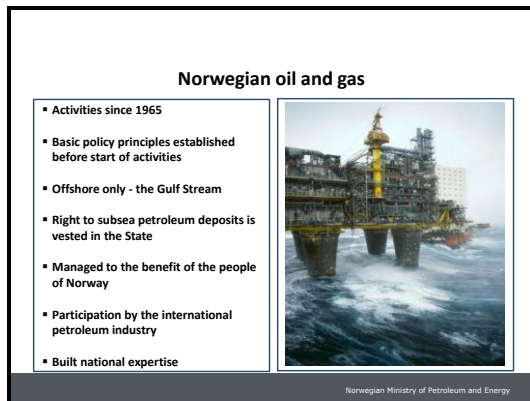
- This of course depends on the US ratifying UNCLOS. Why this has not happened a long time ago is puzzling to me.
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- On Wednesday this week, I had the pleasure of visiting Statoil's shale oil operation in the Bakken formation in North Dakota. In fact, this is the main reason for my visit to the US this time. The shale oil development in the US could have major implications for the oil market and I need to understand what is happening.
  - I am a strong believer in open and transparent markets as a key element to increase energy security for both exporters and importers of energy. Price signals are the most efficient way to allocate resources. Actual prices and price expectations for crude oil are the two most important factors behind the surprising shale oil development. These factors are also the main reason why oil and gas activities in the Arctic are on the increase again. The world of easy oil is gone.
  - America's assumed need to import natural gas has vanished. The break-through of shale gas has changed the world of energy. The important question now is, will the economic viability of oil sands and shale oil, which is produced in North America, do the same for oil? Will increased production and more efficient use of oil in the

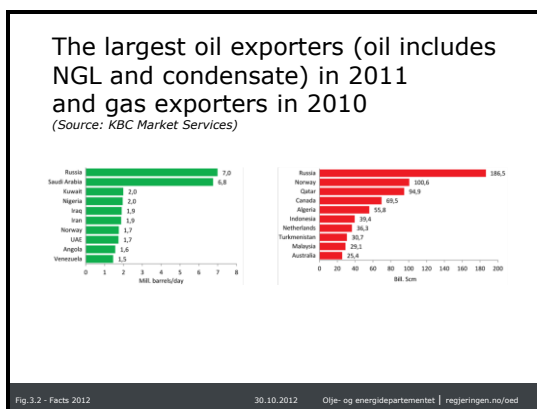
US make North America energy independent - the dream of all Presidents since Nixon?

- It is too early to know, but this American dream definitely seems more achievable than ever before. If it should materialize, it will probably change more than pure market dynamics.

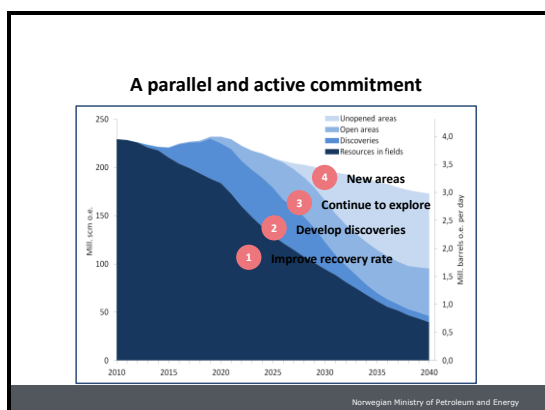


- Norway's history as a host nation for oil and gas activities is considered a success story. Many would say that this is due to luck, since Mother Nature has been so kind to us and given us large resources: We have large oil and gas resources, ample supplies of water for production of hydro power, as well as potential for development of other kinds of renewable energy and natural resources like, minerals, fish and forest.
- But our success as a petroleum nation has mainly come as a result of the way we have managed our petroleum resources.
- Norway was a developed, mature industrial nation when we first discovered oil on the day before Christmas eve in 1969. We had foresighted politicians, who decades ago laid the foundations for our present petroleum policy. There has been a high degree of political consensus over time to ensure sound management of our petroleum resources, and stable and predictable investment conditions.

- We decided early to invite the international petroleum industry. At the same time, we started to build our own knowledge and competence. A strong national oil industry has developed over the years.
- Since the mid 90ties, income from the oil & gas activity has enabled the Norwegian Government to establish and grow a sovereign wealth fund called the Government Pension Fund – Global. It is now the worlds’ larges sovereign wealth fund and it will provide financial security for Norwegians for generations to come.
- Finally, Norway has always combined principles of sound resource management with strict regulations on safety and the environment. Let me give you two examples:
  - Since we started oil production in Norway back in the 1970s, flaring associated with natural gas has been illegal except for emergency purposes. Furthermore, Norway introduced a CO<sub>2</sub>-tax as early as 1991.
  - As a result, we have one of the world’s lowest emissions per unit of oil produced. That is good – but we still have to push efficiency going forward. Some argue that regulations like this reduce competitiveness. On the contrary is my message. It makes us early movers and it spurs innovation.

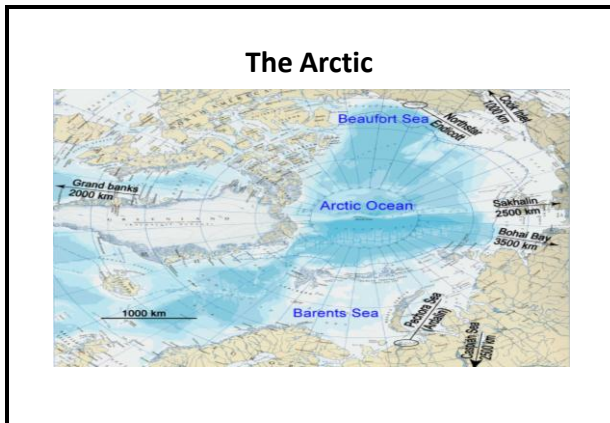


- Today, Norway is the world's 7<sup>th</sup> largest exporter of oil and the 2<sup>nd</sup> largest exporter of gas.

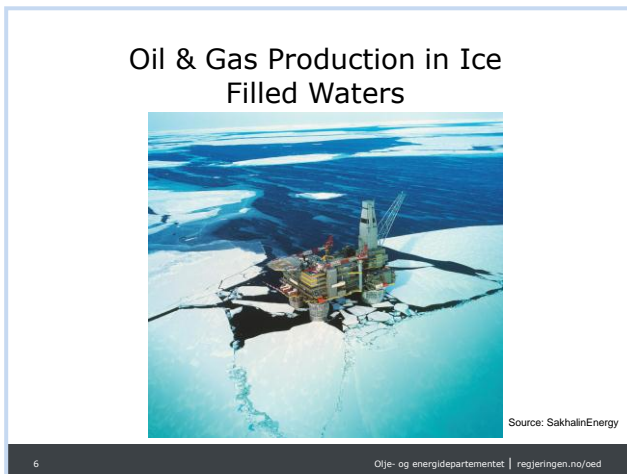


- To maintain this position and to obtain maximum value creation, we need to maintain a high and stable level of activity. Our strategy includes efforts to be carried forward on four areas in parallel:
  1. The recovery rate from fields in production shall be increased further
  2. Discoveries that are profitable shall be developed
  3. Active and thorough exploration in areas open for petroleum activities on the Norwegian Continental Shelf shall be continued – an example is the recently discovered Johan Sverdrup field
  4. New areas shall be opened for petroleum activities
- A necessary requirement for success is healthy competition between capable and motivated oil companies, in particular major oil & gas companies that possess particular skills and competences as well as capital and ability to take risks.

- Furthermore, we must develop new technology and undertake focused R&D programs and activities.
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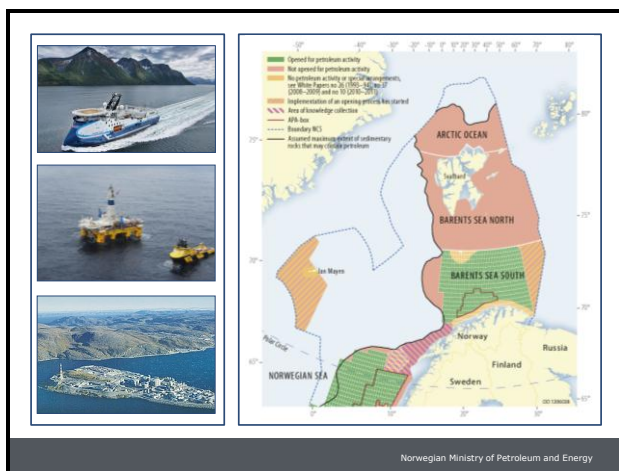
- Petroleum activity in the Arctic is nothing new. The first onshore well was sunk in the Mackenzie River valley almost one hundred years ago. Since then, more than 400 Arctic oil and gas fields have been discovered. However, their development has been slow – chiefly because of the high cost of operating in the Arctic.



- In our national debate, this long story is little known. People seem to think drilling in cold, dark areas is something new and frightening. And that oil activities beyond the Arctic Circle is a completely different business than further south. Outside Sakhalin in Russia, oil & gas production in ice filled waters is happening today, and the presence of ice is handled on a routinely

basis. A picture of one of the platforms outside the island is shown on the slide.

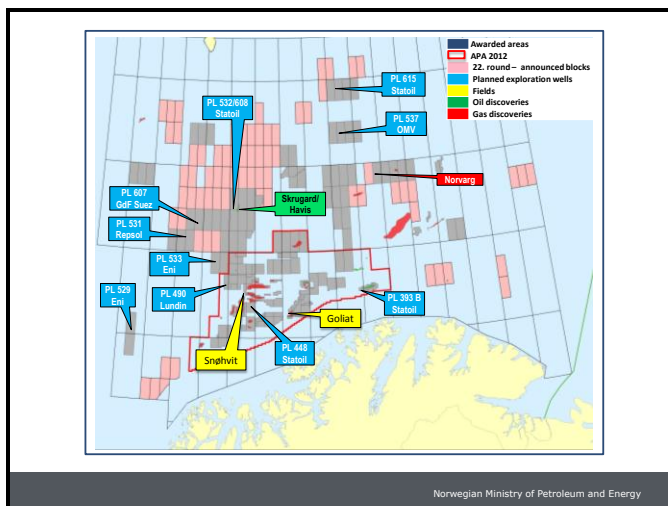
- Demand for reliable energy supplies and the expected oil and gas resources available are major driving forces behind the growing political and industrial interest for the Arctic oceans. More advanced technologies and higher oil prices are other. As I said earlier - the easy oil is gone.



- There is no doubt that the importance of the Arctic is growing. I will share with you where we are in our waters.
- In Norway the first well in the Barents Sea was drilled more than 30 years ago. The first discovery was made soon after this part of the Continental Shelf became available for petroleum activities. Over the years, more areas were made available. However, we needed to enter a new millennium before the first development could start.
- During the last decade, we have been on a very positive trend. Through a thorough process, involving all stakeholders, we established broad consensus about establishing the Barents Sea as a petroleum province.
- In the planning process, important elements like integrated management plans are introduced. Impact assessments are carried out. We need to base ourselves on the best available knowledge

in evaluating future petroleum activities. It has never been our policy to open all areas on the Continental Shelf at once – we have applied a step-wise approach.

- The slide shows the status for the areas in our north.
  - The green area is available for petroleum activities
  - The yellow areas have special arrangements.
  - Opening processes are ongoing in the South-Eastern Barents Sea and around the island of Jan Mayen.
  - The North-Eastern Norwegian Sea is in a phase of knowledge collection.
  
- We have good progress in our ongoing opening processes. My plan is to submit a proposal on opening of these areas for petroleum activities to our Parliament in the spring of 2013.
  
- Let me give you an update on all the activities in the opened area.



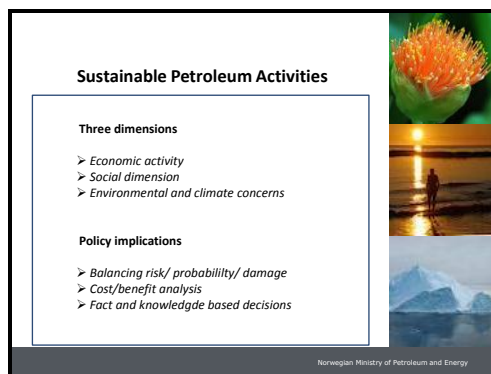
- The optimism regarding our High North today is based on the actual discoveries, development projects and exploration activity in the Barents Sea. Fifteen years ago, this area seemed to be without any future.
  
- Today our aim is:



- To maximize value from the Snøhvit gas field, which started production in 2007;
  - To finalize the development of the Goliat oil field;
  - To develop Skrugard/Havis – two recent, adjacent oil discoveries of oil;
  - To mature other potential commercial discoveries;
  - To continue to explore in licensed areas – many exploration wells are planned for the next three years;
  - Continue to include new areas in licensing rounds. We have two ongoing rounds in the area, the 22<sup>nd</sup> round and APA2012. We have already seen that there is great industry interest in more acreage in our High North;
- This summer I announced the twenty-second licensing round. Out of the 86 blocks announced, 81 are located north of the Arctic Circle, and 72 of those are located in the Barents Sea; shown in pink on the map. This underlines the fact that Norway as a petroleum nation is moving north and that the industry is doing the same.
  - I am confident that the round will result in awards of many exciting new blocks. Like in all previous licensing rounds, I look forward to receiving high quality applications from experienced companies.
  - In summary, it has taken more than three decades to establish Arctic Norway as the fully-fledged petroleum province it is today. Thirty years since we started going north, we have finally passed the starting line and are speeding up! A significant part of our energy future will be in the Arctic, but make no mistake – it will still take considerable time to develop the resources. We are prudent and responsible resource managers.
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- These perspectives create promising opportunities for Norway – especially in the form of positive economic and social effects in

the North. We have seen the enormous economic effects in the Hammerfest area generated by the development of the Snøhvit gas field.

- Being a member of the Government, my wish is obviously that such ripple effects shall materialise in other regions of our High North as well. As part of building a prosperous Arctic future, this is in my view what we all should want for the Arctic at large, not least to the benefit of the population in the area. This requires a clear in-sight and prudent political decisions both for the short term and for the long term.



- Such decisions must be based on facts, knowledge and experience. And they must be taken with due consideration of the potential future effects of petroleum activities on the environment and other users of the sea.
- Petroleum activities in parts of the Arctic are demanding; commercially, environmentally, technically and climatically. Handling of these challenges requires knowledge, creativity and innovative skills from the petroleum industry at large. As always, I firmly believe that these challenges can be met. The industry is innovative and has overcome big challenges before. Therefore, these challenges will not stand in the way of growing oil and gas activities in the north.
- This being said, it is important to note that the Arctic represents different sets of challenges, depending on what part of the region we refer to. For example, one big difference between the Arctic

in, say, Alaska, and the Norwegian Arctic waters is the presence of the Gulf Stream – making most of our High North ice free.

- Norway has a more than 30 year history of petroleum activity in the High North. In order to develop petroleum activities in the High North further in a responsible manner, we need that industries, politicians, governments and consumers together have the capability, flexibility, attitudes, skills and creativity to address the challenges, and implement sound solutions.
- The contract between society and the industry is fragile. To keep the license to operate the industry must deliver safe and responsible operations every day. The Macondo accident was a wake-up call. The likelihood of such accidents ever happening again is reduced considerably through joint industry efforts and requirements by public authorities. Accidents of the scale seen on Macondo must be avoided in the future.
- Petroleum activities on the Norwegian continental shelf are based on the highest standards of health, safety and environment. This of course true also for our activities in the Arctic. It is the common responsibility of each of the Arctic coastal states and the petroleum industry to implement and apply such standards.
- To succeed, dialogue between our countries is very important. The same goes for sharing of experience, transferring of knowledge and discussing lessons learned. Such dialogue is important on the political level, and even more important between our experts and industry. This is important in itself and it is necessary for maintaining a license to operate.
- To ensure that petroleum activities in the Arctic also benefit societies, we are occupied with ensuring local and regional ripple effects of the petroleum activities. In our experience, such ripple effects are obtained through three parallel actions:
  - Continued exploration for and development and production of oil and gas fields

- The availability of competent labour – not least from the region itself
  - Making local and regional businesses qualified to be suppliers to the petroleum activities
  - We must always strive to improve local value creation from offshore activities – not least through a continuous gaining of new knowledge, which again is dependent on the sharing of experience.
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- To ensure the prudent exploitation of our oil and gas resources in the Arctic, we must further develop and ensure the use of new, cutting-edge technology in order to protect the environment.
  - The role of the petroleum industry in this process is also extremely important. It is a matter of responsibility – a responsibility that the industry is fully aware of and is implementing every day.
  - Close cooperation and interaction with the scientific community are essential elements if we are to achieve our overarching goals for the High North. I have therefore decided to establish a research and competence center, focusing on challenges related to petroleum activities in Arctic environments. The center will collaborate with leading research communities in Norway and abroad.
  - In conclusion:
    - Norway will continue to be a stable and predictable supplier of oil & gas.
    - We will develop our part of the Arctic
    - The responsibility of developing the Arctic lies with the coastal states. There is no legal vacuum in the Arctic!
  - Thank you for your attention!
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