

Offshore Northern Seas
Conference

Restricted until
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Prime Minister
Gro Harlem Brundtland

NORWEGIAN PETROLEUM POLICY

Ladies and gentlemen,

Offshore Northern Seas '86 is opening at a time when the international oil industry and the political authorities in petroleum-producing countries are facing tremendous challenges. This occasion provides a welcome opportunity for me to present the Norwegian Government's views on the situation as we experience it today.

As you know, Norway is a relative newcomer as an oil and gas producing country. Just a few decades ago, no one could have envisaged that the North Sea would be the source of not millions, but billions of cubic metres of oil and gas. I would like to compliment the petroleum industry on its impressive achievements in meeting not least the technological challenges inherent in this pioneering phase.

We are, of course, not here to celebrate historical achievements, but to discuss the present situation and the future, as it affects both government and industry.

The sharp drop in oil prices six months ago has introduced several new aspects into the global energy picture. First of all, there is a great deal of uncertainty regarding petroleum prices in the near future, and we may find ourselves living with this uncertainty for quite some time. It is expected, however, that we will eventually see a stabilization of the market and witness rising petroleum prices in the 90's.

The drop in petroleum prices has had and is having a dramatic impact on the Norwegian national economy. Our national revenues will fall by 6% from 1985 to 1986 due to the loss of oil-related income. Norway's foreign trade surplus, which

amounted to some 5% of our gross domestic product (GDP), will turn into a deficit of at least the same magnitude. This is taking place at the same time as the Norwegian economy is overheated due to a much too rapid rate of growth in private consumption and imports, and when our traditional non-oil exports are declining and losing market shares.

We cannot meet this situation solely by relying on foreign borrowing and in the hope that oil prices will rise sufficiently early enough to solve our economic problems. We have to cut down on domestic spending and assign priority to creating alternative sources of income. In the years ahead we have to face stagnation or a decline in our real personal incomes, and growth in government spending must be kept to a bare minimum. The first round of belt-tightening measures were approved this summer and more are inevitable, barring any major changes in the situation.

But reducing expenditure and cooling down the economy alone will not solve our problems. We will also have to stimulate industrial expansion, in the hope that business and industry will be able to contribute more towards filling in the income gap created by the fall in oil revenues. This is crucial for the present Government of Norway. We welcome closer cooperation between Norwegian and foreign industry in this effort. The Norwegian Government will endeavour to offer attractive terms and conditions to industries, Norwegian as well as foreign, that are interested in doing business in this country.

Long-term commitments and long lead times are characteristic of the petroleum activity on the Norwegian continental shelf. My Government is most concerned that there not be an overreaction to the present low level of petroleum prices. Our proven reserves are substantial and we expect more deposits to be found. Decisions must therefore also be based on long-term considerations. We should bear in mind the fact that Norway will continue to belong to the ranks of petroleum-producing countries far into the next century.

This is the perspective that must be taken in Government planning. We expect that the oil companies will take the same long-term view and that their decisions will reflect the clear

potential which exists for an increase in oil prices.

Even if oil prices were to remain low in the short term due to excess production, the long-term price of oil will have to go up, if only because of the fact that oil is a limited resource. A number of important producers have already experienced stable or declining production. Already by the mid-90's a few producers in the Middle East will have to cover a larger part of the demand.

On the demand side, the potential for increased consumption in the developing countries is large. Even if oil consumption in industrialized countries were expected to stabilize or increase slightly at last year's prices, the present price level would most likely introduce an increase in world consumption. If today's prices cause a substantial increase in petroleum consumption and a substantial reduction in exploration and development, production shortages may present us with the prospect of a new oil crisis in the not too distant future.

This is not a particularly attractive scenario. We feel that the world as a whole would be better served by stable oil prices. Crude prices which reflect the long-term value of oil would facilitate planning for continued economic growth and would benefit consumer as well as producer countries. At the same time stable, reasonable petroleum prices would promote the search for energy conservation measures and alternative sources of energy, encouraging a policy that is less environmentally destructive. Such a long-term global perspective with regard to the environment and development seems a wise course to follow.

The Norwegian Government takes a positive view of the fact that the OPEC countries have reached constructive decisions in their endeavours to stabilize the oil market. This initiative gives reason for some optimism with regard to the future development of the market.

The OPEC measures will enter into force on 1 September, and are, according to the Geneva decision, temporary. In the communiqué emphasis was placed on ensuring that the September - October measures bear no prejudice as regards OPEC's future total

production and national quotas for its members. There is thus some uncertainty as to the formulation of OPEC's long-term production policy and the significance of the Geneva decision to the long-term development of the oil market.

In its inaugural statement, my Government announced that Norway will contribute to the stabilization of oil prices at a reasonable level, provided that the OPEC countries agree among themselves on realistic measures.

We regard the Geneva OPEC decision to be an important step in the direction of such a stabilization of the oil market.

The Norwegian Government is in the process of making a careful assessment of the present situation, as well as of decisions by producer countries outside OPEC. In this process, contact will now be made with the companies concerned, to discuss how possible restrictions in production best can be implemented. The Government is following the situation closely and will arrive at its conclusion in the near future.

In 1985 Norwegian production of oil and gas reached about 64 million tons of oil equivalents. This figure is expected to increase gradually in the coming years. But we will experience a decline in our production in the early 1990's unless decisions concerning new development projects are taken in the near future.

In June Norwegian gas producers and continental European buyers entered into a contract involving the sale of 450 billion SM3 (standard cubic meters) of gas. According to the contract, Norway will begin delivery in 1993 at a level of 4 billion SM3 per year, reaching a plateau level of 20 billion SM3 per year by the year 2000. The gas is mainly to be delivered from the Sleipner and Troll fields. But gas is also available from other fields. The contract allows for a further increase in volume from 2003. Total investments are expected to reach NOK 60 billion. This project will help to maintain development activity in the immediate future and the production of oil and gas from the mid-90's. This contract will make it possible for Norway to continue and further strengthen its role as the supplier of

significant quantities of gas to continental Europe. This project represents the first development phase of a field capable of supplying large quantities of gas well beyond the middle of the next century. The magnitude and long-term implications of this deal are thus extraordinary, measured by any standard.

Although Western Europe and possibly even more distant areas will be the dominant markets for Norwegian gas, we are also exploring the possibilities for utilizing natural gas in our domestic energy supply system. One of the most interesting applications seems to be the use of gas for generating electricity to supplement our hydroelectric power supply system. Some commercial petroleum finds are now being studied with a view to supplying gas to possible power plants. The State Power Board and Statoil play an important role in this, but other companies too are engaged in such studies. The final outcome will depend on the economy of the project, which must provide a profit for the gas producer at the same time as the resultant electricity can be supplied at a price that is acceptable to the energy consumer. If an economically feasible solution can be found, this form of energy supply might also be of interest to other countries. In the wake of the Chernobyl accident, an increased supply of electricity generated from conventional sources might become more attractive. With her abundant reserves of gas, Norway may also be in a position to extend her energy export beyond the scope of natural gas.

Some of our oil and gas fields also contain large quantities of natural gas liquid or wet gas. Thus an ample supply of feed stock could be provided for the expansion and diversification of the Norwegian petro-chemical industry.

The investment level on the Norwegian shelf will be relatively high next year, due to the development of the Gullfaks and Oseberg fields. Future developments on the Norwegian shelf will be in deeper waters and under even more difficult conditions than has been the case thus far. The direct State participation in the exploration and development costs will be high. The Government is, therefore, at least as interested as the oil

companies in new, cost-effective technology. Those companies able to provide the petroleum sector with effective, cost-saving technology must now undertake a responsibility to meet the new standards of cost-consciousness, as well as the exploration and production cost-cutting that faces all of us.

Last Friday the Government proposed changes in our petroleum taxation to the Storting, Norway's national assembly. In the future, foreign oil companies will not be required to carry the Norwegian Government's share in the exploration phase. The price of seismic packages has been substantially reduced. The royalty will be reduced to zero for future fields, i.e. for fields whose development plans have not yet been presented to the Storting. Depreciation will be allowed already in the year of investment. The special tax rate will be reduced from 35 per cent to 30 per cent. For future fields there will be a production allowance of 15 per cent.

It is my opinion that, in the light of this proposal, the Government has shown considerable flexibility in a situation which is at least as difficult for the Government as for the oil companies. I hope and believe that the changes will create a reasonable climate for the oil companies. Our objective is to stimulate further development and exploration in the petroleum sector.

In 1985 the level of exploration on the Norwegian shelf was maintained, as 50 new wells were spudded in. In 1986 this level has been reduced by approximately 30 %. In 1987 we expect the level to be about half of what it was in 1985. A situation with low oil prices calls for a more selective approach to exploration activities.

At the same time it is very important, both for the oil companies and the Government, not to overreact to this present oil price slump. We expect the level of petroleum prices to rise again on a long-term basis. The wells to be drilled in the next few years will create the reserve base for production in the late 1990's and into the next century. It is very important to maintain a level of activity which is high enough to bring new

fields onstream in the late 1990's.

The present oil price slump reduces cash flow for both the oil companies and the Government. This situation forces us both to economize. Future drilling activity must therefore take place on blocks where there is a maximum potential for finding commercial reserves. The Government and Statoil will both be covering their full exploration expenses in the future. In the light of this, I assume that the oil companies and the Government are basically aiming towards a common objective: to bring commercial fields onstream at a time when the market prices for petroleum are expected to be higher than is presently the case.

In the North Sea the goal is to make new commercial discoveries near existing fields and pipelines. The decision this year to develop the Tommeliten field may serve as an example. Excess capacity in existing systems will make it possible to reduce investments and prolong the use of the established infrastructure.

North of the 62nd parallel, at Haltenbanken off the coast of Mid-Norway, we have discovered a new petroleum province. The development of several fields is under consideration. There may be a need for coordination here, in an attempt to cut the high cost of development and to facilitate more efficient employment of our resources.

Exploration off the coast of North Norway has not yet proven the existence of commercial reserves. New blocks in the far North have been included in the 11th round of licensing. The deadline for application is 10 October 1986. New blocks are expected to be allocated in the spring of 1987, allowing the initiation of exploratory drilling in the summer. The vastness of the unexplored areas in the North motivates the Government to undertake a more aggressive strategy. Along with the extension of exploration areas, we are also considering moving into more unknown areas. We plan to allocate up to three strategic blocks in the Barents Sea for drilling in the summer of 1987.

The change in the world oil situation has posed new problems and challenges to the Norwegian Government and to the Norwegian and foreign oil companies that work with us. We are still virtually on the threshold of a long career as an oil-producing nation. The Government has the political will to make use of the possibilities this new national resource opens to us - to benefit Norway and her people, the participating oil companies, the offshore industry and last, but not least, to benefit our trading partners abroad through a steady and reliable supply of energy now and in the future.