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NORWEGIAN OIL AND GAS IN AN INTERNATIONAL PERSPECTIVE

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During the last twenty years, Norway has become a major exporter of oil and gas. This has influenced both our national and our international policies. The fact is that energy is not only an essential component of the national economy but also a vital part of the greatest global challenge of our time - achieving sustainable development. Environment and development are probably the areas where growing international interdependence and the need for international cooperation are most clearly evident.

In a changing world, where strong forces operate across boundaries and between continents - whether within energy, finance, industry, consumer markets, communications or the technological fields, to mention a few - governments must develop new means of governance. Reliance on market forces alone is clearly insufficient. However good market mechanisms are at allocating resources effectively, the market alone will never achieve the overall political objectives of our time - full employment, environmental excellence, and social justice. There is no invisible hand that will guide our global community to stability, peace and development. Therefore, we need to include this wider perspective in our concepts, our policies and our discussion of energy issues.

My Government recently submitted a comprehensive White Paper on Norwegian gas and oil policy. I would like to take this opportunity to give you a brief account of Norway's position as an exporter of energy as well as of the role of the oil and gas industry in the Norwegian economy. Against this background, I shall then expand on the sustainable development perspective and the urgent need for regional and global cooperation.

Norwegian petroleum production has increased considerably during the past decades and is expected to continue to grow towards the end of the century, but at a slower rate. Norway made an important choice at an early stage by deciding to accept the challenge and build a strong petroleum community. We have succeeded. This demonstrates the potential inherent in cooperation between Norwegian and foreign oil companies, between the authorities and private firms, and between researchers and practitioners. The international oil community has played and will continue to play an important role in this comprehensive cooperation process.

The latest estimates indicate that total oil and gas resources on the Norwegian continental shelf could amount to about 10 billion tons of oil equivalents. This corresponds to twice the world consumption of oil and gas during 1992, or 11 times the total amount of oil and gas consumed by the European OECD countries in 1992. Seen from another angle, by the

end of 1993, approximately 10 per cent of estimated Norwegian oil and gas reserves had been produced.

While our oil production will probably reach its zenith in the near future, the large investments in gas field development will lead to a substantial increase in Norway's gas production from 1995 to the year 2000. Based on the efficient use of existing and planned infrastructure, and on the size of remaining Norwegian gas reserves and expected market development, annual Norwegian gas production is expected to increase to between 60 and 70 billion cubic meters after the year 2000. Norwegian gas sale contracts already amount to more than 50 billion cubic meters per annum.

All Norwegian gas and some 70 per cent of our oil production are sold to countries within the European Union. Norwegian oil accounts for about 15 per cent of oil consumption in the Union, and Norwegian gas for about 10 per cent of total gas consumption. Our share of the West European gas market is expected to go up to at least 15 per cent as exports are expected to increase more rapidly than gas consumption.

EU dependence on imported energy is expected to increase, and Norwegian exports will be a considerable contribution to EU energy supplies. It is our objective to be a stable, reliable supplier of oil and gas to Western Europe. We place particular emphasis on the safety of gas supplies.

Through the Agreement on the European Economic Area, Norway has for the first time obtained an institutional framework through which it can have an impact on EU legislation. The treaties of the European Union contain no provisions for a common energy policy and no requirements for harmonization of national energy policies. However, this does not mean that energy is not affected by the integration process in Europe. The development of the internal market, and cooperation in the fields of environment, research, external trade, foreign policy and so on touch on energy in many different ways.

Some figures will illustrate the fact that the oil and gas industry has developed into a major industry in Norway, which is of considerable significance to the State finances, foreign trade and development of related industries. In 1993, the State's net petroleum revenues constituted slightly less than 10 per cent of total revenues. Petroleum exports accounted for approximately one third of Norwegian exports, and the sector's investments represented approximately one third of total Norwegian investments.

In the management of our petroleum resources we are concerned that the oil and gas resources provide an optimum contribution to the overall national wealth. Revenues from petroleum are an integrated part of our overall economic and environmental policies. Our petroleum wealth must be managed in a way which takes into consideration the needs of future generations. The activity level will also be evaluated on the basis of these principles.

Unemployment has become the major economic and social problem of the 1990s. Thus an overriding objective of our economic policies has been to increase employment and to develop strategies for the reduction of unemployment. For my Government, the oil and gas industry is an important contribution to meeting this objective. Without the increase in the rate of recovery of oil and gas in recent years, the Norwegian unemployment rate would have been higher than it is. Investments in petroleum activities in themselves stimulate demand and thereby contribute to creating jobs, in particular in the contracting industries. Furthermore, the investments generate future income which makes it possible to finance jobs and services in the public sector. Thus, the petroleum industry contributes significantly to the further development of Norwegian welfare.

However, the important position of the oil and gas activities and the corresponding vulnerability to oil price fluctuations also underscore the necessity of carrying out economic and industrial policies which prevent oil dependency from becoming too pronounced. The major concern is to develop an economic structure which is compatible with a balanced development of the labor market, foreign trade and public budgets. We are on the right track, and we are determined to maintain a steady course.

Current conditions are favorable for a sustained increase in employment and Mainland production. Inflation and interest rates are very low. The total number of employed seems to be rising, and it is likely that the unemployment rate will continue to go down in the coming years. According to preliminary figures, industrial output during the first two months of this year exceeded the corresponding figures for last year by about 6 per cent. This is indeed good news.

So is the fact that, thanks to the major technological advances of recent years, the increase in environmentally harmful effluents from the Norwegian oil and energy sector has been lower than the increase in production. Some effluents have even been reduced in absolute values. For instance, operational oil effluents to the sea were reduced by more than 35 per cent from 1991 to 1992. Both the general framework, formulated with a view to restricting negative environmental impact, and the considerable efforts made by the petroleum industry in this area have contributed to this favorable trend. Through the Norwegian Oil Industry Association, the operators have initiated an environmental program designed to improve knowledge about effluents to air and sea from Norwegian petroleum activities, and to evaluate technology and costs of potential measures to reduce effluents.

Stringent public rules and regulations are important means of fostering this kind of adaptation. Government policies towards offshore petroleum activities are based on a coherent approach to the various elements in quality performance. Such elements include safeguarding human life and health, the environment, the assets, the quality of the products and the production processes, and even the efficiency of the total enterprise. The

legislation pertaining to safety and the working environment requires that the operating companies organize their activities in a way which is compatible with regulatory requirements and corporate objectives.

Such a coherent approach to quality performance is reflected in the set-up of the government functions. Since 1973, the Norwegian Petroleum Directorate has been responsible for the supervision of licensees' performance regarding resource management, safety and the working environment. This integrated function allows the Directorate to perform the statutory functions in the petroleum activities and serve in a central coordinating capacity in relation to the other two official agencies that are directly involved. This arrangement has proven to be very effective in achieving good results in a cost-effective way.

A marked feature of the current economic situation is the high profitability of the major oil fields. In the years ahead, overall economic margins will depend to a greater extent on new and smaller fields, and on the increasing significance of gas. We have adopted a dynamic view of our resource base - we believe in new discoveries, enhanced recovery from existing fields, adoption of new technology and continuous rationalization. This can prevent a rapid drop in production and form the basis for a long tail-off in our oil production.

The growing ratio between exploration costs and new proven reserves and the diminishing average size of new fields will inevitably have an impact, and the increasing rate of recovery from existing fields cannot last forever. Increased gas production will for a time replace falling oil production, but total production of petroleum will eventually have to decline.

Approximately 60 per cent of the Norwegian continental shelf has not yet been opened up to exploration for oil and gas. Both the Norwegian Petroleum Directorate and the oil industry are pinning their hopes on the resource potential in the areas that are now being opened to exploration activity. Some of the oil companies expect these areas to contain the same volume of petroleum resources that has been produced on the Norwegian continental shelf thus far.

Norway will continue to pursue a petroleum policy characterized by continuity and predictability. It is a prerequisite that the activities take place in a manner which ensures the appropriate exploitation of resources, and that due account be taken of environmental considerations and fisheries interests. At the same time conditions must be constantly adapted to ensure that reserves are proven and recovered as efficiently as possible, also in terms of resource management and sustainability. This presupposes that companies will have the opportunity to achieve sufficient profitability.

I have noted that the oil companies recently expressed concern about the general framework conditions of the petroleum industry. In particular, focus has been on the taxation of their activities on the Norwegian continental shelf, which they maintain is too high compared with

profitability. This is a message we take seriously. Of course, my Government realizes that the ability to obtain adequate profit levels affects the outlook and planning of oil companies.

Although we acknowledge the importance of a stable fiscal framework as a basis for long-term investment commitments, this has never meant that fiscal rules should remain unchanged irrespective of important factors like the level of the world market price of crude oil. The present taxation regime regarding dividends and the accounting rules have, to a degree not envisaged, created incentives for the oil companies to repatriate equity capital and debt finance petroleum investments in Norway. The Government has observed that the debt to equity ratio of many oil companies has increased substantially in 1992 and 1993.

This is the reason why the Ministry of Finance circulated for comment a draft proposal suggesting that financial items should be removed from the base of the special tax. Some of you will be pleased to learn that my Government has decided not to go ahead with this idea for the time being. We have concluded that a better solution to the problem may be to establish broader thin capitalization rules as an element of the petroleum tax system. In this connection, we will also evaluate the fiscal terms for the oil and gas industry in Norway in light of oil-price developments.

Two years ago, Norway cooperated with Egypt and Italy in hosting a Ministerial Workshop on Energy which highlighted the need for a new Global Energy Policy Interrelationship. What we envisaged was an on-going cooperative network of contacts and deeper mutual understanding between producers and consumers of energy, at political as well as expert level, and on a bilateral, regional and global basis.

The workshop provided a unique opportunity for key countries to reflect at Foreign and Energy Minister level on the important links between energy, the environment and economic development. Later this year, the Government of Spain will host a new producer-consumer meeting at political level. My Government strongly supports the Spanish initiative to further develop an on-going global dialogue on energy.

In our part of the world, the European Energy Charter will promote energy cooperation across former political and economic dividing lines. The Charter will serve as a vehicle to speed up the integration of Russia and other reform countries into a wider cooperative structure. Norway fully supports the Charter. We are taking an active part in the on-going negotiations on a balanced Charter Treaty. The objectives of the Charter itself must be fulfilled in a way that reconciles the interests of all countries concerned. To be a viable instrument of mutually beneficial international cooperation, it must take due account of state sovereignty and sovereign rights over energy resources.

Ladies and gentlemen,

In the years ahead, the global community will be compelled to make a transition more important than the agricultural and industrial revolutions.

We will be forced to make changes in our economies which reduce the strain on the environment, and we will be compelled to find new solutions to the problem of unemployment. We must make use of our collective resources to promote the transition towards sustainable development.

Whereas we could previously be concerned with the distribution of wealth and resources among the present generation, we are now faced with the Herculean task of distributing resources between present and future generations. This challenge will require more and much stronger international alliances between people of all nations, involving political forces and the business community.

In order to move forward, new forms of cooperation between government, business, and society are required. We need clear, agreed framework conditions that can inspire industry to develop sustainable technology and speed up the innovations which are already possible. This can best be achieved by a synthesis of economic instruments designed to correct distortions and encourage continuous improvement, government regulations and performance standards, and - not least - voluntary initiatives by the private sector itself.

Experience has shown, however, that no matter how strong the political will, there is no single national road to environmental excellence, full employment, monetary stability or low interest rates. These challenges are common to all. The concept of integration has in fact become the recipe for the survival of the nation state. When so many of the forces influencing our future are operating on the international level, and the power of the individual state is eroding, we must also lift public and democratic decision-making and governance to that same level. There is no alternative to governments acting together through international institutions. Unilateralist approaches to international issues will only prolong the current unsustainable trends.

The present situation falls dangerously short of our needs. Existing international institutions are too weak to secure political decisions that are effective in a global context. The absence of organized forms of socially accountable, democratic governance at global level emerges as the fundamental weakness of the present world order. The gap between the powerful process of economic globalization driven by business firms and corporations on the one hand, and the explosive nature of most social, economic, environmental and political problems across countries and regions of the world on the other is unacceptable.

A more active use of economic instruments to benefit the environment will also require international harmonization of rules. Countries must be able to implement measures that are conducive to the sustainable management of their natural resources, confident that they will not be met by arbitrary or unjustifiable actions by other countries.

At present only the European regional organization, the European Union, has the mandate and the powers to pool the sovereignty of its members in

the pursuance of common goals. Other regions are currently looking to Europe for inspiration in their own institution-building. We see this both in Southeast Asia and in the Middle East. On the road to global governance, the intensity of the processes of regional political integration is of critical importance.

This process of further cooperation should not be viewed with fear and anxiety, but rather with hope and optimism. It is not a question of sacrifice or loss of national sovereignty, but of additional and necessary opportunities. In charting our future course, we must thus do the following:

First, economic policy must be reconciled with the laws and limitations of nature. We must institute a comprehensive revision of economic models so that sustainable development becomes both the goal and the driving force. We must use administrative and economic instruments to promote sustainable consumption patterns. International environmental requirements must be introduced for all production and resource uses which have transboundary effects, and we must find solutions to environmental problems resulting from transport and the final disposal of products. The OECD countries should agree to develop a policy-oriented, high-level international research program to draw up proposals in this area.

Second, we must, in the words of the World Commission on Environment and Development, "produce more with less". We have not yet exploited every possibility to reduce environmental stress by reducing consumption of energy and raw materials per unit of production, and encouraging energy efficiency and recycling through charges and similar measures. Renewable energy must gradually replace non-renewable energy.

Third, the development of energy-efficient technologies must be speeded up. We must agree on a system whereby energy prices reflect environmental costs. Sound solutions must be found to the waste problems and risks associated with nuclear power. Through financial mechanisms, developing countries should receive substantial support for developing competence in the use of renewable energy resources, such as solar and wind power. Technology transfer efforts must be given high priority.

Fourth, industry must integrate environmental objectives into policy planning and implementation of these objectives must be the responsibility of top management. The concepts "Green Business" and "Environmental Auditing" are result-oriented instruments in such a process. A recent promising trend is the introduction of systems of quality control and the methods for verifying the environmental soundness of companies developed by the International Standardization Organization. The public authorities must lead the way and set a good example, for instance by basing their purchasing policies on environmental considerations.

Given our widespread knowledge, and the advances of modern technology, we should have a real chance of reducing pollution, improving energy efficiency and increasing the recycling of resources. Although investment in physical capital may yield diminishing returns, there is no reason to believe that investment in new knowledge is subject to such limitations.

On the contrary, the fact that recent technological breakthroughs coincide with general access to education suggests that we may only have seen the beginning of technological change. The best prospects for our future seem to lie in the inexhaustible potential of the human mind. It is not the natural resources themselves - such as oil and gas - that give us wealth, but the way we utilize these resources.

In this overall process, there is no final, detailed blueprint. We must be innovative and flexible. Our approaches must go hand-in-hand with the dynamics of development. Only by combining vision and down-to-earth practicability can we develop a process that will meet the urgent demands of the present, while remaining viable and giving direction for the future.

Dialogue between government and industry is essential as we lay the foundation for a common, cooperative energy future. By gathering the many professions involved in petroleum activities, the World Petroleum Congress is making an important contribution to this cooperative process. I wish you every success in your efforts.