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Offshore Northern Seas Foundation

Prime Minister Jan P. Syse

Your Royal Highness, Ladies and Gentlemen,

This year's ONS Conference takes place in the lovely time of August. But it also takes place in august times. The Middle East situation may explode into open war, with unpredictable consequences politically and economically, but above all in terms of human suffering. We have already seen that foreigners, even women and children, are being held by the aggressor in Iraq as shields against retaliation.

The Iraqi-Kuwait conflict raises two questions of major importance to the world: First the general one: How does the conflict affect peace and the future security of other nations? And secondly: How does it affect the world economy and - in particular - the worldwide oil market; (oil production, transport, supply, prices and exploration). The last one is certainly the most pertinent question to be raised and answered - and argued - at this gathering of oil experts. I shall deal with some of these particular oil aspects myself.

But first I would like to reflect on the general, political side of the Gulf drama. What are we up against?

Let there be no mistake about it. We are up against an unprovoked and unlawful military invasion. We are

witnessing an armed occupation and a plundering of all assets the aggressor has been able to lay his hands on.

There are no legal niceties to the Iraqi invasion.

So what does the world do about it? The answer is that the aggressor has to be stopped. Or, more exactly: He has to be repulsed. Iraq must be persuaded, i.e. forced, to withdraw from Kuwait and to accept Kuwait's right to run its own affairs under its own leaders.

Last week I was happy to receive two ministers of the rightful Kuwaitian government. Norway itself was an occupied country during the second world war. Our head of state and our government were in exile. We needed international support and recognition then, as they do it now. We had it. And they shall have it.

The solution to the crisis is really very simple. How to reach that solution, however, is another matter, much more complex and more uncertain. But the goal itself is clear. International law and order must be restored in the Gulf. Not because world markets need its oil - they do - but because the rule of law is the only safety device that all free nations can count on. None of us can live safely in a world where aggressive dictators simply can annex their smaller, weaker neighbours - and get away with it. The world community must draw a line. And we must draw it here.

We all know from recent history that yielding to aggression gave no such thing as peace in our time. It gave nothing but surrender. Surrender and sorrow. We shall not repeat that mistake.

Luckily the world is drawing the line. Of course we all have our share of analysts who are busily looking

for cracks in the wall of international unity. Some of them are so busy that they hardly see the wall for mere cracks. What should impress them, nowever, is that the world's nations hardly ever were as united as they are in this case. Not only verbally, but by actually joining forces:

The UN Security Council never voted and acted as decisively. No multinational force ever gathered as quickly, and was as multinational as the one now coming together in the Gulf Area. No international sanctions had ever a better chance of succeeding. And never before were there fewer governments who said; "Oh, let the others restore order, by all means, but do not count us in."

This time we are almost unanimously in. As so many times before, the US carry the heaviest burden and provide the clearest leadership. But we are with them. And we shall all overcome, as long as we stay together.

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Now, how does these political upheavels affect the international oil community? First and foremost, it serves us as a reminder that oil has its main reserves consentrated in an unstable part of the world. They are located at a long distance from the main consuming countries both in geographical, cultural and political terms. Once more we are seeing the inherent potential volatility of the oil market.

It seems therefore that security of supply and stabilizing efforts will continue to be key questions also in the 1990'ies. The recent events have underlined the importance of having diversified oil supplies outside the Middle East. Norway is one of those suppliers.

Saudi Arabia is of course by far the most important swing producer. In the longer run the unstable situation may, however, have serious effects and could destabilize the international economy.

Before the last events, the scene seemed to be set for a rather well-balanced petroleum market in the 1990'ies. A steady, but moderate increase in oil consumption of about 1 mill. barrels/day each year should have made it easier to stabilize prices at a reasonable level. Expectations pointed towards sound profits in upstream, transportation and downstream activities. Now it seems much more difficult to foresee the future and establish a basis for sound investments.

The Organization of Petroleum Exporting Countries has come of age and thereby of wisdom. Not all the time, but more of the time. Prior to the Iraqi occupation of Kuwait, the general outlook for the petroleum industry seemed to be good. The organization appeared increasingly to pursue a responsible and orderly policy, based on the principle of "neither too much nor too little" as regards price movements. Consumers and producers seemed to accept that prices during the 90'ies would increase gradually in real terms, reflecting increasing exploration and development costs, particularly outside OPEC. This scenario would also provide energy conservation programs and research for new energy sources. Producer and consumer nations had indeed come closer.

Norway has acknowledged the importance of international cooperation in stabilizing oil prices. For several years we contributed to these efforts by curtailing our production capacity about 7.5%. In view of the changing market situation, my government

decided in June not to enforce further restrictions on capacity utilization in the second half of 1990. In today's situation, it is obviously right to produce at full capacity. Had we been able to do so, we would have increased our production further, to make up for the loss of oil from the Gulf.

As it is, we expect to increase production gradually, until the mid 1990'ies.

It goes without saying that future production levels and capacity depends on our present exploration activities. Norway holds an oil and gas reserve base close to half of the proven petroleum reserves in Western Europe. But due to the long period of time between exploration and production, we are not able to fill up gaps in supply at short notice, like the Saudis. We may think about it, yes, have the wish, the intention (I'm quoting Ibsen now) but do it!? That is beyond us. There is simply no way that we can breach fluctuations in world oil demand by increasing or decreasing our exploration activity. Norway's aim must be to maintain a reasonable production level in the long run, based on sound investments.

The 13th round of concessions, announced in March this year, is an important element in this context. The announcement of this round comprises a total of 52 blocks. In addition, the companies may apply for previously announced, not licensed blocks on the Mid-Norwegian shelf and in the Barents Sea.

The North Sea has produced for nearly twenty years, and production from existing fields will last well into the next century. Although this is our most explored area, we believe there are still substantial amounts of petroleum to be found. The interest of the companies prior to the 13th round reflects this optimistic view. In this area an objective both for

the industry and the authorities is to secure the use of existing infrastructure.

The oil companies have for the time being shown a relatively modest interest in the shelf outside Mid-Norway. In a period of 2-3 years, new areas on the Mid-Norwegian shelf may be opened for exploration activity.

As yet we (in contrast to the Russians) have not discovered any commercial oil finds up north, in the Barents Sea. There are, however, vast prospective areas still undrilled. There is certainly a need for systematic exploration efforts in this area. I am therefore happy that the companies' reactions to the announcement of the 13th round reflect a high interest in the southern part of the Barents Sea.

To judge by the interest shown and the spread of applications, the 13th round may be the largest we have seen for years. The awards are due to take place by the turn of the year.

As already mentioned, our petroleum policy must be seen in a long term perspective. Only a few years ago we said that the 13th, 14th and 15th licensing rounds would focus on oil. However, with the present development of the gas markets, we may find it appropriate to include gas prospects in the 14th round.

In the long run, gas will probably account for an increasing share of our petroleum production and revenue. Norway is likely to become a gas nation more than an oil nation, even though oil still constitutes about 75% of the gross income from the sector. In general, I would like to say that the goal of our gas marketing is to obtain the best possible economic results and not to sell as much gas as possible.

Stepping outside the frame of my lecture, I would point out that our overriding goal is to reduce the total impact of oil and gas revenues on our the national economy. Over the last years too much of the oil money has put by big-spending government into immediate consumption instead of being saved for the future. My government has set out to redress that balance, but it is hard going. Still we are moving in the right direction - partly by drawing up a better balanced budget for 1990 and steering it through Parliament, partly by sticking rigidly to the budget frames, and partly by establishing a National oil fund.

We have learned from experience that there is no "quick fix" to such economic problems. The Government has therefore adopted a medium term strategy for economic policies, more in line with mainstream thinking in other OECD-countries. Price inflation is now down to around 3.5 per cent, and clearly, we intend to keep inflation low. The recent wage settlement are around 4 per cent.

One major element in the economic strategy is a program for structural policies to improve the functioning of markets, to increase competition, and to reduce the growth of public expenditures.

Tax reforms are another important element in this program.

My government is resisting pressure from the opposition parties to reflate domestic demand. Instead, our major instruments to fight unemployment in the short run are 1) a major labour market program and 2) prudent wage settlements. Gradually we aim at reducing unemployment by a steady course of improved competitiveness and efficiency.

You probably know that for the last two years, under the former government, normal wage negotiations were suspended in Norway. Wages were set by law. We have now gone back to normal. We intend to stay there, partly for ideological, and partly for practical reasons. Even if you did not think that a man should have the right to negotiate the price of his work, there would still be the practical aspect: Wage controls simply cannot last, not without stifling the economy. So we have withdrawn government from the wages battle.

So far the results of our absence seem to be good. As a whole, government can sometimes do a lot of good simply by staying out of markets. Markets are like parachutes, they function only when open.

In Eastern Europe we see the development of democracies and an emphasis on market economies. These two are intertwined; free societies and free markets.

The emerging new democracies have given clear signals that they want to integrate their economies with those of Western Europe. In the natural gas market, it looks as if the USSR will lose its export monopoly in Eastern Europe. A number of countries in this region are presently seeking new suppliers to supplement their Soviet and domestic gas supplies. Norway and others are possible suppliers to these markets.

The West-European countries are putting much effort into the market integration process. However, it is still not clear how the EC will organize its gas industry. Today, only 5% of the total production of electricity in Western Europe comes from the use of natural gas. The potential in this market is



considerable. While we expect a moderate increase in traditional use of natural gas in Europe, there seems to be a growing interest in the use of gas for electricity generation. Deliveries will start in 1993, and by year 2000 we will cover 1/3 of the Spanish market.

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Norway represents today the world's third largest offshore market, surpassed only by the US and UK. The deliveries of goods and services amount to 30 bill. NOK a year. We expect the market to remain at a high level till the mid 90ies and then show a decline. However, potential new finds and new developments may better the market outlook in the second half of the decade.

The main principle is letting international bids form the basis for deliveries to the offshore activities. We believe in free markets. Protectionism is good for safeguarding inefficient industries, but not for developing competitiveness. As a result of an open policy our domestic industry has over the past 20 years gradually acquired experience and expertise within most areas. In some of them we are undoubtedly in the technological forefront.

Future development activities will be characterized by smaller projects and lower investments in each project. Many of them will be straight forward satellite developments whereas others may be technologically demanding.

Important competitive factors in the years to come will be financial and organizational strengths to handle more extensive contracts, competence to put forward more complex solutions, and control of technology.

In general, we expect a trend of mergers and acquisitions within the supply industry in order to form strong and broadranged companies. There will, however, be niches to fill for more specialized firms.

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In the end, however, all these reflections on the future build upon the idea of a fairly rational world, with peace and a degree of stability. A world where we can calculate the risks and where long term planning is possible. Is that the kind of world we shall live in?

Even as an oil producer, Norway sees no future in rocketing oil prices. Rocketing prices signal international disorder, and disorder is harmful to the world economy and to world trade. As an industrialised nation, and a seafaring one, we are dependent upon both. The wealth of nations - and this particular nation - is fostered by peace, not by war. Therefore our main task must be to restore peace by standing up to aggression. We are in that business together.

Thank you!