

Prime Minister

Not to be released before 1400 hours

Odvar Nordli

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Ladies and gentlemen,

I was very pleased to have been asked to open the Offshore North Sea 1980 conference and exhibition.

I welcome the efforts of the organizers and trust that the ONS will once again provide a useful forum for discussing the problems and prospects of the exploitation of offshore petroleum as well as energy in the wider context.

I also appreciate this opportunity to address you on the very important topic of oil and energy.

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From my vantage point it is natural to be concerned with our ability to work together politically, producers as well as consumers, to improve the prospects for solving the energy problems.

Thus in my address today I shall deal mainly with international energy issues and our own role in this respect.

Much of the discussion on energy problems over the last few years has been concentrating on the issue of oil prices. In my view that is very understandable especially in light of the fact that prices increased by some 125% over a 16 month period.

I would like to stress that despite Norway's very special position with abundant hydro as well as petroleum resources, we are nevertheless very much concerned with the economic implications of sudden price jumps for the world economy.

This is because we have an extremely open economy. Norway is especially dependent on the European markets for the export of our more traditional goods and services and is therefore very vulnerable to economic fluctuations in the large oil importing nations of Europe. Looked at from this angle it is natural that we are and will continue to be apprehensive about rapid changes in oil prices that might have a disruptive effect on these economies.

On the other hand, in a longer perspective we believe that energy prices will have to rise in real terms to reflect the increasing scarcity of oil and the cost and limited availability of other sources of energy. One very important conservation measure would be to convince users of energy, through both information and market signals, that energy, and especially oil supplies, will be increasingly scarce and expensive. Thus, I hope that in our further discussions on energy issues we will not forget the importance of the price mechanism to help us to achieve a better utilization and allocation of our resources.

In some ways the price increases in 1977 may seem more dramatic than those in 1974. For one thing, in absolute dollar terms, the increases over the last year have been almost twice as large as those in 1973-74. I hope however, that seen in the longterm perspective, the world will be better able to handle the price increases and their economic impact this time than it was in 1974.

Thus I hope that the present slow-down of energy demand, and in particular oil demand, will not be used as an excuse by all sides for not taking the necessary steps to improve their efforts for further energy conservation and stimulate production of new energy resources.

At the same time it is important that we all do what we can to ensure that price increases take place as smoothly as possible. A higher degree of price predictability is needed. In the view of the Norwegian Government every opportunity should be pursued to bring about such greater predictability. In our opinion such an end cannot be reached through political pressures, but only by improving the dialogue between producing and consuming nations, based on a recognition of common interest.

In my view, there are several reasons to allow ourselves some degree of optimism in this respect. Despite all the difficulties that seem to surround the efforts for global negotiations in the UN,

the mere fact that these negotiations are taking place is of vital importance.

My Government also attaches great importance to the work undertaken by the Brandt-Commission. We hope that this document will be a stimulus for further efforts to tackle the international energy problems as well as the wider issues of North and South.

I would also like to underline the importance of the deliberations within OPEC on a longterm strategy. In the Norwegian view it is important that the consuming nations are willing to recognize that many of the oil producing countries within OPEC continue to produce a large amount of oil in excess of their own economic needs, mainly for the benefit of the consumers. Thus, I think it is important that we co-operate to find a way of ensuring that

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surplus funds of the OPEC countries are not greatly reduced by inflation. This is particularly true as many of the OPEC economies are totally dominated by oil and could face severe problems when their petroleum resources run out. It is also important that we strengthen our efforts to find a meaningful way of transferring technology to OPEC countries, helping them in broadening their industrial base.

In my view such actions on our part will be important in reinforcing the co-operative elements within OPEC. The discussions we had with the Saudi-Arabian oil minister, Sheik Yamani, during his visit to Norway earlier this summer, have strengthened my belief that on both sides there is a willingness to work towards

solutions which recognize the common interest of producers and consumers.

In this respect I also find it promising that the OPEC nations lately seem to have a much more favourable attitude than earlier to the energy policy steps taken by the IEA-countries.

What can Norway contribute in this respect? We have for a long time been preoccupied with these questions. I feel that although we are a rather small country we have a special background in being both a net exporter and an industrialized country, very closely integrated with the Western economy.

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This unique position exposes us to producer-type as well as consumer-type concerns. In this context we took on the chairmanship of the North South Committee which has been preparing the global negotiations in the UN. We will continue whenever possible to try to contribute to a further understanding and recognition of common interest in our contacts with the industrialized countries as well as in our contacts with the OPEC countries.

I also hope that the various attempts to bring the interested parties together for an informal dialogue can contribute to positive progress for the global negotiations in the UN.

Having pointed to some of the reasons for optimism I will, however hasten to stress our concern about the energy situation of the developing countries. Most of these countries cannot afford to await long term solutions. Many of them have possibilities of increasing oil production. However, they lack technological and financial support. This needs to be solved through international co-operation. Norway's own experience in the energy field may be of some value in this respect. We have already received many requests for advice and assistance. One of our problems is that we too have limited technical and administrative resources. We are, however, about to take some organizational steps which will facilitate the co-ordination of the various governmental departments, including NORAD. We will set up a new committee which will work closely with Norwegian industry in efforts to increase industry's involvement in our assistance to,

and co-operation with the developing countries.

In the midst of this exhibition held in Norway's oil center with an impressive contribution by the Norwegian industry, one might easily get a somewhat exaggerated picture of the importance of Norway's energy resources and our ability to exploit these resources. Although we are already making a major contribution to the energy supply by producing about 6 times our own petroleum consumption, our role is still rather limited seen from an international point of view. Based on the reserves that have been developed or are being developed, we only have some one percent of the world's petroleum reserves. Even if we are successful in our efforts north of the 62nd parallel, I do not

see a significant change in our role in the world energy supply. Thus, in my view Norway will never become a major factor in the oil market.

Given our limited production the price of Norwegian oil will therefore also in the future be determined by the pricing policy of the major producing nations and the general picture of supply and demand. Under the Norwegian concession system the producing companies are responsible for the selling and pricing of their own production.

So far, therefore the main part of the Norwegian crude production is being handle by private companies. Apart from expressing our concern that Norwegian oil should not be a price leader, the Government has not interfered with the behaviour of these

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companies in the market.

However, a price used in calculations of taxes and royalties is determined by the Norwegian authorities ex-post, based in general terms on the international price level of other similar crudes. Because of its high quality and location close to the major markets, the market price for Norwegian crude will always be in the upper range of international crude oil prices.

Our role in the natural gas market, however, be somewhat more important than in the oil market. This is partly because, in the longer run, gas will probably constitute the major part of our petroleum reserves. A more significant reason however, is the

difference between the gas market and the oil market. The oil market is characterized by numerous sales constantly testing the general level of market prices. The gas market, however is characterized by the very infrequent negotiation of new contracts and the long-term nature of these contracts. Thus each new sale may have a significant impact on the evolution of the gas industry.

In Europe, there have only been a few new contracts since the Dutch and Norwegian contracts of the early seventies. These and most other current contracts were agreed on at a time when sellers as well as buyers had a rather different energy perspective than they have to-day. Accordingly, these contracts have over the years led to gas being significantly underpriced in relation to other forms of energy. This may have been a factor in explaining why the world has not so far been able to utilize natural gas as

efficiently as oil. Large quantities of gas are still being burned throughout the world because it has not been economical for the producers to market the gas. Furthermore, it seems to us that also in the consuming countries the relatively low gas prices have led to gas often being used rather ineffectively. Low gas prices might also be a factor in explaining why the West has not so far met its goals for the expansion of the coal industry.



Lately, however, there have been some signs of more realistic gas pricing. The current contracts from Canada and Mexico to the US were among the first that linked the evolution of gas prices to the development of crude oil prices. On this basis we foresee a development where gas produced from Norway in the middle of the 80s will be sold at prices which, at the importing terminal, will be more in line with crude oil values than is now the case for our present contracts.

In evaluating the role that Norwegian petroleum production may play in the future energy supply, it is important to bear in mind that, in the case of Norway, petroleum was introduced into a highly industrialized, full-employment economy.

For us, therefore, the stimulus from oil is not primarily a question of adding to our total economic activity, but a question of directing our resources into more productive activities. The total level of the petroleum activities in Norway will therefore have to be determined primarily with a view to the implications for the development of the Norwegian economy. Petroleum production in the first half of the 80s will be around 60 million tons of oil equivalents a year. Despite these relatively high production figures for a newcomer in the industry, petroleum production proper will not contribute more than 15 to 20% of the GNP in this period. Even when turning to exports, oil will not be dominant. More than 60% of our exports will be products other than petroleum. This simply reflects how open our economy is, with close to 50% of our GNP being exported.

In the next few years there will be a rapid increase in the revenues from the petroleum sector. Given our general full-employment situation, there are obvious limitations as to how we can utilize these revenues without increasing the pressure in the Norwegian economy. In view of how important our traditional industries still are for the Norwegian economy, despite the petroleum revenues, it is important that we do not become too dependent on the petroleum sector. Thus the influence of the petroleum activity on the overall development of our economy must be a decisive factor in determining our rate of petroleum production. Needless to say it will be in line with our traditional policy that we will, in this context, also consider foreign policy aspects.

Our concern for the Norwegian economy means that domestically the increased revenues must primarily be directed towards increased investment rather than increased consumption. We have to strengthen our industry so that we can maintain a high wage level without becoming uncompetitive internationally. In the next few years however, reducing our foreign debt will have first priority. Later on I foresee a development when a fair share of the increased revenues may be used for Norwegian investments abroad.

In closing I would like to add that it is my hope that the petroleum resources on our shelf can be a positive factor in our efforts to strengthen the co-operation on energy and industrial matters with our major trading partners in Western Europe. Norway is already making a contribution to Europe's energy supply by substantial deliveries of oil and gas. Furthermore, we see that our discussion partners also appear to have begun to take the necessary steps to make such co-operation fruitful for both parties.