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PULLING THE BALTIC SEA REGION
TOGETHER OR APART?

Editors Andris Sprūds and Toms Rostoks

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NORWEGIAN ENERGY POLICY AND THE BALTIC SEA REGION: SENSE AND SENSIBILITY

*Jakub M. Godzimirski*¹

This study presents the main lines in Norwegian energy policy and then considers how this policy may impact on energy cooperation in the Baltic Sea Region. Norway is an interesting case due to the fact that the country has a special position on the political and economic map of Europe. It is the sole country to have twice rejected the EU invitation to join the union. Relations between Norway and the EU — also in the area of energy — are today regulated by an economic, but not political arrangement — the European Economic Area agreement, which gives Norway access to the European market but not a say in the EU decision-making process. During the Cold War, Norway's geographical location in the strategically important area of a possible East/West confrontation and fear of the Soviet Union were the main reasons why it decided to join NATO, indeed becoming one of its most enthusiastic members. This membership was also regulated by a special set of rules, with self-imposed restrictions on military activity/presence on the territory of Norway, which were adopted to reassure the Soviet Union and later Russia. However, with the end of the Cold War, Norway seems to have lost much of its strategic importance and has found itself compelled to look for a new strategy that can attract the attention of such key strategic allies as the members of NATO and the EU, and provide security in today's turbulent and unpredictable world. Considerable energy resources are among Norway's major strategic assets. They have made it

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one of the most important energy players in the world, as well as being one of the few Western-style democracies among the top producers and exporters of oil and gas. Understanding Norwegian choices and policies in the area of energy is therefore important if we want to get a complete picture of the framework conditions for energy cooperation not only in the Baltic Sea region, that is in the focus of that study, but also in broader European and even global context.

The aim of this study is to explore the regional implications of Norway's energy strategy in the Baltic Sea region, asking how it may contribute to the strengthening or weakening of energy cooperation in that setting. However, in order to understand what imprint the Norwegian energy policy may leave on the energy cooperation in the Baltic Sea region we have to start with presenting basic data on energy in Norway. This part will be followed by an examination of the main features of Norway's energy strategy, locating it in the broader context of the national debate on overall post-Cold War strategy. In addition, some attention will be paid to the main actors, interest groups and stakeholders involved in the process of shaping and implementation of that policy.

This study is based on an extensive analysis of a wide range of Norwegian official and public statements on energy, as well as on official information provided by key actors. In addition, reference is also made to several studies of the history of the sector, and its importance in the realization of the overall strategy of the Norwegian state.

Norway: a small great energy power

Norway has a unique position in the regional, European and global energy context. The country has huge energy resources located within its economic zone; the special climatic and topographic conditions render it almost self-sufficient in energy even without the offshore resources; and, importantly, Norway has a specific political culture that has made it one of the few petro-states not to have been spoiled by irresponsible policies of their ruling elites. This culture was to a large extent influenced by the Protestant ethics and by the presence of well-functioning democratic institutions and market economy even prior to the beginning of the country's oil and gas boom. This resulted in petroleum resources being defined as a common-property and the Norwegian state taking the lead in setting the energy strategy of the

country in line with the deeply rooted social-democratic ideals with redistribution of wealth — also that generated by the emerging petroleum sector — as the main element of both social and economic policy.

In order to understand the potential impact of Norwegian policy on energy cooperation in the Baltic Sea region, we need to look at Norway's energy potential, get better insight into the country's energy policy debate and see how these two can play out in the Baltic Sea regional context.

We focus first on the country's petroleum sector, and then turn to power generation. Both these sectors have highly specific features that help to make Norway an important energy player in the regional as well as in the global context.

A glance at available energy statistics reveals that Norway has an enormous (albeit only partly realized) potential to become a key energy player in the Baltic Sea region. In 2007, Norway was one of the biggest per capita consumers and producers of energy in the world. Energy consumption per capita reached the level of 5.7 t of oil equivalent per year, ranked in the seventh place among all nations.² The total production of energy in Norway reached 223.6 mtoe in 2006, whereas the total domestic consumption of energy was only 18.39 mtoe. It follows that Norway exported almost eight times more energy than it consumed, so its energy import dependence could be expressed as *minus* 773% that year.

In 2007, Norway controlled 1.6% of the world's known reserves of gas. It produced almost 90 billion m³ of natural gas (3.3% of the global total that year) and was the third biggest exporter in the world,³ providing the EU with 24.2% of the gas it imported from outside.⁴ Norway also has the fourth biggest reserves of natural gas per capita,⁵ ranking eleventh in general terms.⁶ In the same year, while controlling only 0.7% of known global reserves of oil, it produced 128.3 million Sm³ of oil. That corresponded to 3.3% of global oil production, making Norway the fifth biggest exporter (2.52 million barrels per day) and tenth biggest producer (2.77 million barrels per day)⁷ of oil in the world. In per capita terms

² http://www.nationmaster.com/graph/ene_usa_per_per-energy-usage-per-person

³ http://www.ssb.no/emner/01/sa_nrm/nrm2007/kap3-energi.pdf

⁴ European Union (2008) *EU Energy in Figures 2007/2008* update June 2008, at http://ec.europa.eu/dgs/energy_transport/figures/pocketbook/doc/2007/2007_energy_en.pdf, p. 14.

⁵ http://www.nationmaster.com/graph/ene_nat_gas_res_percap-natural-gas-reserves-per-capita

⁶ http://www.nationmaster.com/graph/ene_nat_gas_res-energy-natural-gas-reserves

⁷ Official Norwegian statistics from *Fakta. Norsk Petroleum Verksemd*. Oslo: Petroleum and Energy Ministry (PEM), 2007.

Norway held the fourth place in the world in oil production.⁸ In 2006, it had an almost 16% share of all oil imported to the European Union. Indeed, Norway exports more than 95% of the gas and almost 90% of the oil produced on its continental shelf.

Naturally enough, the petroleum sector has become a central element of the national economy. According to the most recent official data provided by the Norwegian Ministry of Petroleum and Energy,⁹ the petroleum sector in 2007 was responsible for 24% of the country's GDP, 31% of state revenues and 48% of the country's exports; further, 23% of total investments in the country involved this sector.¹⁰

Not only does the energy sector secure the current high level of welfare in the country: it will also have to provide future generations with an economic "cushion" once the petroleum era has come to an end. By the end of 2007, the Government Pension Fund — Global had reached the level of 88% of the country's GDP. Its market value was at that time more than approximately USD 333 billion.¹¹ During the whole period of oil and gas exploitation, the sector has created values exceeding USD 900 billion, of which almost one half has ended as revenues to the Norwegian state.¹²

Even today the Norwegian state secures for itself the lion's share of revenues from petroleum activities. With a price of one barrel of oil at NOK 500 (~ USD 71) the Government's share in oil taxes, State Direct Financial Interest (SDØE) and surplus of government share is NOK 380 (~ USD 54), whereas company profits are only NOK 40 (~USD 7), with operational and capital costs estimated at NOK 80 (~ USD 11).¹³ The importance of the petroleum sector to the national economy is also underlined by the fact that 16 of the 25 largest companies on the Oslo Stock Exchange are energy-related, and that this industry contributes, directly and indirectly, to 220,000 jobs across the country.¹⁴

Norway's role as a great petroleum power is of relatively recent date. As Table 1 shows, petroleum production started only in 1971, two years

⁸ http://www.nationmaster.com/graph/ene_oil_pro_percap-energy-oil-production-per-capita

⁹ For most recent official information on Norwegian energy sector see: <http://www.npd.no/English/Produkter+og+tjenester/Publikasjoner/Faktaheftet/Faktaheftet+2008/fakta2008.htm>

¹⁰ http://www.npd.no/NR/rdonlyres/24468CE3-30DC-497F-9E43-501FBC48A131/17557/kap1_engelsk1.pdf

¹¹ http://www.npd.no/NR/rdonlyres/24468CE3-30DC-497F-9E43-501FBC48A131/17557/kap1_engelsk1.pdf

¹² *Ibid.*

¹³ <http://fso.olf.no/english/news/?53317.pdf>

¹⁴ *Ibid.*

after discovery of the Ekofisk field, and peaked in 2004. Oil production peaked somewhat earlier, in 2000, whereas gas production has been rising since the beginning of the petroleum era and is expected to continue to grow. On the whole, however, the future of the sector does not seem very bright — the existing oil reserves may be depleted in less than nine years if current production levels are maintained and no new discoveries are made, while gas reserves can be expected to last for the next 33 years if production is stabilized at the 2007 level and no new fields are discovered and put in production.¹⁵ Thus, in a strategic, long-term perspective, the future of Norway's petroleum sector is linked more with gas than with oil.

Although oil and gas are often produced in the same areas — in 2007 there were 57 fields in production in Norway — these two strategic commodities are different in market terms. Oil is traded on the global market at exchanges and is transported in various ways from production fields to final customers. By contrast, the trade in gas is based on long-term strategic contracts; the commodity is mostly transported via pipelines; and the market has more of a regional character, with producers and customers bound together by a relatively rigid infrastructure and long-term commitments. Although LNG (liquified natural gas) technology may change the logics of the gas market, most Norwegian gas today is transported via pipelines. LNG deliveries to the US market began only in 2007. The Norwegian gas transport system used to supply main customers in Europe is made up of 7,800 km of large-diameter high-pressure pipelines. The newly opened Langeled pipeline that since October 2007 has been used to transport gas from Ormen Lange field to the British market is the longest subsea pipeline in the world, with a total length of 1,171 km.¹⁶

In 2007, the following countries imported oil from Norway: the United Kingdom (almost 23 million metric tonnes), the Netherlands (11.7), France (8.9), Germany (8.8), Canada (7.2), the USA (4.4), Sweden (3.9), Italy (2.3), Spain (2), Ireland (1.9), Denmark (1.8), Poland (0.6), Finland (0.5), Portugal (0.3), China (0.3), Bahamas (0.2) and South Africa. When it comes to Norway's gas, the main markets were Germany (25 bcm), the UK (24.2), France (13), the Netherlands (6.4),

¹⁵ British Petroleum. "Statistical Review of World Energy, June 2008", from <http://www.bp.com/productlanding.do?categoryId=6929&contentId=7044622>, 2008, p. 6.

¹⁶ Lohne, Thor Otto. "The Norwegian Gas Market and Supplies to the UK & Europe", presentation at Westminster Energy Forum – Trends in UK Oil and Gas, 27 November 2007.

Belgium (5.9), Italy (5.6), the Czech Republic (3) and Spain (2.3). These figures seem to confirm that the gas market has a much more regional character than the oil market, and this may have also consequences for the international dimensions of Norway's energy policy and strategy.

Table 1. Combined production of oil and gas in Norway, in 1000 Sm³ o.e. (SSB)¹⁷

Year	Total 1000 Sm ³ o.e.	Oil Sm ³	Gas Sm ³
1971	357	357	–
1981	53,782	27,485	24,951
1991	137,577	108,510	25,027
1996	224,766	175,422	37,407
2000	244,431	181,181	49,748
2001	252,264	180,884	53,895
2002	258,968	173,649	65,501
2003	262,318	165,475	72,905
2004	263,892	162,777	78,351
2005	257,257	148,137	84,963
2006	248,852	136,577	87,613
2007	237,990	128,277	89,662

There are several specific features in Norway's overall energy balance. A relatively small share of the overall gas and oil production is used for domestic energy purposes — only 6% of oil, and slightly more than 10% of gas. These two sources are responsible for slightly more than a half of the country's gross domestic consumption of energy. Interestingly, renewables stand for more than 46% of gross inland consumption of energy — a very high share compared with the EU-27, where only 7.1% of gross inland energy consumption was generated from renewables. Here we should note the extremely high share of hydropower in energy consumption and electricity generation. A full 99% of electricity produced in the country in 2006 came from renewables, almost exclusively hydropower.¹⁸ In 2007, Norway produced 10,267 ktoe of

¹⁷ <http://www.ssb.no/ogprodre/tab-01.html>

¹⁸ EU 2008, p. 75, author's own calculations.

hydropower, whereas the whole EU-27 produced only slightly more than twice that amount of energy from hydropower (26,515 ktoe). This huge capacity for electricity production has necessarily influenced Norway's long-term economic strategy, with the establishment of several highly energy-intensive branches as the cornerstone of the country's economy, also during the petroleum age. The relatively easy access to non-polluting, renewable sources of energy in the form of hydropower has also made Norway one of the biggest consumers of electricity per capita. According to the latest IEA global energy survey, per capita electricity consumption in Norway reached the level of 24,295 kWh/per capita — outranked only by Iceland, with slightly more than 31,000 kWh/per capita.¹⁹ However, this has some disadvantages: most important, Norwegian society and economy are dependent on the caprices of weather, as almost half the energy consumed in the country relies on rather unpredictable climatic conditions. The Norwegian debate on energy security — especially on security of supply — therefore has a focus completely different from that in most other European countries. What is debated in Norway is not as much import dependence, but reservoir capacity²⁰ and water reservoir levels.²¹ Total reservoir capacity in Norway in 2007 was 84,147 GWh; water reservoir levels in week 33 of 2008 were 86.8% (corresponding to slightly more than 71,000 GWh), while in the same week in 2006 — the year of the most recent serious energy crisis in Norway — reservoir levels had been only 59% (or slightly more than 48,000 GWh).

Such figures show Norway's vulnerability, which is a major factor behind the close energy cooperation in the Nordic area. Table 2 provides data on the Nordic electricity market and Norway's role.

This tour d'horizon of Norway's energy resources reveals an energy paradox. Norway, one of the countries best endowed by nature when it comes to energy, faces a serious energy-related dilemma — one that has much to do with both its energy resources and the political choices made by its elite. The overall goal of the national strategy is to ensure the sustainable development of the country, and energy resources play a major part. On the one hand, they provide policy-makers with revenues that can be used to implement that strategy; but on the other hand, the

¹⁹ http://www.iea.org/textbase/nppdf/free/2008/key_stats_2008.pdf

²⁰ For more details on reservoir capacity in Norway and other Nordic countries, see Nordel. *Annual statistics 2007*, at <http://www.nordel.org/content/Default.asp?PageID=213>, 2008, p. 19.

²¹ For more data on that see <http://www.nve.no/>

country's non-renewable energy resources pose some dilemmas: they are seen as a source of pollution, and their production, use and export would seem to contradict the very idea of environmentally-friendly sustainable development.

Table 2. Norway: Power/electricity generation and consumption 2007
(Nordel 2008)

Category	NORDEL	Norway
Total consumption, TWh	412.6	127.4
Maximum load, GW	61.1	18.6
Electricity generation TWh	409.2	137.4
Hydropower %	55	98
Nuclear power %	21	–
Other thermal power %	21	1
Wind power %	3	1
Geothermal power %	–	–

As one Norwegian commentator put it recently, “The oil adventure has transformed rubbish into gold and placed us in a country of happiness where we can cultivate human rights and democracy instead of rye, barley and oats.”²² The same commentator added that there were two exceptional things about this adventure. Firstly, the country has developed its own service industry; and secondly, the state has retained control.²³ To see how this has been possible we need to examine the main features of Norway's energy policy in the petroleum era.

Norwegian energy strategy and policy

Norwegian energy policy has at least two dimensions — a domestic and an external one. In addition, this policy has to be interpreted in a broader context, as a part of Norway's national grand strategy. Energy policy plays a crucial part in the realization of a more important strategic goal — the sustainable development of the country.

²² Simonsen, Anne Hege. “Det norske oljeeventyret”, *Samtiden*, no. 2, 2008, pp. 66–75, here p. 66.

²³ *Ibid.*, p. 67.

This brief overview of Norwegian energy policy is divided into three parts. In the first part a brief outline of the most important features of the country's energy strategy over the last four decades is presented; in the second part we take a closer look at the main actors involved; and the third part focuses on the domestic and international dimensions of Norway's energy policy.

Energy strategy

Norway deliberately embarked on a rather consistent strategy for developing its energy resources once the discovery of the first fields on the Norwegian Continental Shelf (NCS) had shown that it was set to become a major international energy player. This choice has since been described in the following way by a leading expert on resource-based economies:

In fact, Norway has charted a long-run-oriented, tax-based, and reasonably market-friendly approach to the management of its vast oil resources. By law, the title to petroleum deposits on the Norwegian continental shelf is vested in the State. In principle, therefore, all the rent from oil and gas should accrue to the Norwegian people through their government.²⁴

The most important moment in the development of Norwegian energy strategy was, undoubtedly, the discovery of the first oil and gas field on the NCS in 1969. Already six years earlier, the Government had proclaimed that the Norwegian state had full sovereignty over the NCS and its resources. Ever since that time, the state has remained the most important actor in the country's energy sector — as owner, decision-maker, licensor and developer.²⁵

In order to understand the main features of Norway's energy strategy over the past four decades and how these features will influence the country's decisions in the energy sector in years to come, we need to understand how the Norwegian authorities decided to approach energy-related challenges in the early years of the petroleum era.

²⁴ Gylfason, T. "A Nordic Perspective on Natural Resources Abundance", in R.M. Auty (ed.). *Resource Abundance and Economic Development*. Oxford University Press, 2001, pp. 296–311.

²⁵ For more on that see Austvik, Ole Gunnar. "Staten som petroleumsentreprenør". *Tidsskrift for samfunnsforskning*, vol. 48, no. 2, 2007, pp. 197–226; and Norvik, Harald. "En norsk modell for eierskap? – Statoil som lærestykke". *Nytt Norsk Tidsskrift*, No. 1, 2007, pp. 12–23.

Gylfason²⁶ holds that countries rich in natural resources, as the main basis of economic development, face various challenges, as “on average, they offer their citizens less education with larger families, less health care and less democracy than other countries with similar incomes and fewer natural resources”. In Gylfason’s opinion, the main issue at stake in mineral-rich countries seems to be the impact natural capital may have on social and human capital, on investments, corruption, the development of democracy and education and, in a broader perspective, on economic growth. His conclusion, based on the study of mineral-rich countries, was that natural capital crowds out human capital, education is good for growth, natural capital crowds out social capital, that corruption hurts growth, democracy is good for growth, and that natural capital share and growth are inversely related. Norway is, in Gylfason’s opinion, exceptional in that respect, and he describes the country as a success story. It seems to have been able to avoid most of the economic, social and political pitfalls bound up with rich natural resources. The main reason has been, again in Gylfason’s analysis, the fact that Norway had a long tradition of democracy and market economy in place even before the advent of oil: large-scale rent seeking was averted as oil was defined as a common-property resource from the beginning; moreover, the country had an adequate investment performance and an excellent education record.

It seems that Norway’s policy- and decision-makers were aware of the dangers the country could face when entering petroleum era, and that they deliberately opted for a strategy aimed at helping the country cope with the new challenges that followed in the wake of the unexpected abundance of natural resources. The original goals of Norway’s petroleum strategy have been thoroughly analysed by Norvik.²⁷ According to him, the Norwegian state from the very beginning was deeply involved in shaping a strategy for dealing with these new challenges. Such a strategy would have to take into account a range of aspects: resource, fiscal, industrial and market related. In pursuing its goals in this area the state had to address various resource-related issues, such as responsible management of natural resources of the country, relationship between production of oil and gas and health, security and environment. The

²⁶ Gylfason, T. “Development and Growth in Mineral Rich Countries”, presentation at a workshop at the UN Research Institute for Social Development, Geneva, 24–25 April 2008, available at <http://www3.hi.is/~gylfason/lectures.htm>.

²⁷ Norvik, 2007, *op. cit.*, p. 13.

state would also have to secure revenues from activities in this sector, and create conditions for the development of industrial expertise, capacities and technological clusters that would help to transform Norway into a leading oil nation. And finally, the petroleum policy of the state had to address purely market-related issues, such as Norway's position on the global energy map, and access to energy markets.

Norvik claims that in the early stage of the development of Norway's petroleum sector the following four decisions were of crucial importance.

The first one was the decision to open the sector for foreign companies, which were invited to come to Norway and contribute to the development of its petroleum sector by investments and sharing their expertise.

The second, even more important, decision was the idea of developing the petroleum sector based on a licensing system, whereby companies would be awarded production licences for specific blocks on the NSC and for a limited number of years, after having been scrutinized by the awarding authorities that consider the companies' technical expertise, understanding of geology, financial strength and experience.²⁸ The production licence regulates the companies' rights and obligations *vis-à-vis* the Norwegian state, which is the sole owner of the energy resources on the NSC. The document lists the requirements in the Petroleum Act and sets out detailed terms and conditions for each individual licence. A company that has been awarded a production licence has an exclusive right to carry out surveys, exploration drilling and production of oil and gas within the defined geographical area, and to own its share of the petroleum produced.

The third crucial decision was the decision to provide local, Norwegian technological expertise and to set up Norwegian companies to take part in developing of the country's petroleum resources. This decision resulted in the establishment of the state-owned company Statoil and the Norwegian Oil Directorate in 1972.

The fourth decision concerned the separation of the Norwegian state and Statoil. Although the state would retain its role as the main agenda-setter in the country's energy sector, Statoil was not to serve as its extended arm in the sector: it would be an independent economic actor with its own agenda. In the first period, Statoil had the status of a privileged company on the NCS, but later on, having built up its own expertise, the company got also an operator role.

²⁸ For more about that system see: http://www.npd.no/English/Emner/Ressursforvaltning/Under-sokelse_og_leting/Konsesjonsrunder/2008_10_17_Utvinningssloyve.htm

The decisions taken by the authorities in that early stage of the Norwegian oil and gas era have resulted in the establishment of a specifically Norwegian model of ownership and management of natural resources. The main feature of that model is the central role of the state in the development and management of the country's energy resources, not only in the petroleum sector, but also in electricity. Norway's hydro-resources are publicly owned, and the licensing system is also an important element in resource management, guaranteeing public control of the sector through the "right of reversion".²⁹ Implementation of this policy has resulted in the state being able to absorb about 80% of the resource rent since 1980 through the use of various fiscal instruments such as corporate tax, a special resource surtax, royalty, area fee, and carbon dioxide tax.³⁰ Securing such a high share of the resource rent has been crucial for realizing the Norwegian grand strategy of social and economic development over the past four decades. Thanks to state management of the nation's energy resources and revenues, Norway has often been described as one of the few resource-abundant countries that has consistently performed well in economic, political and social terms.³¹

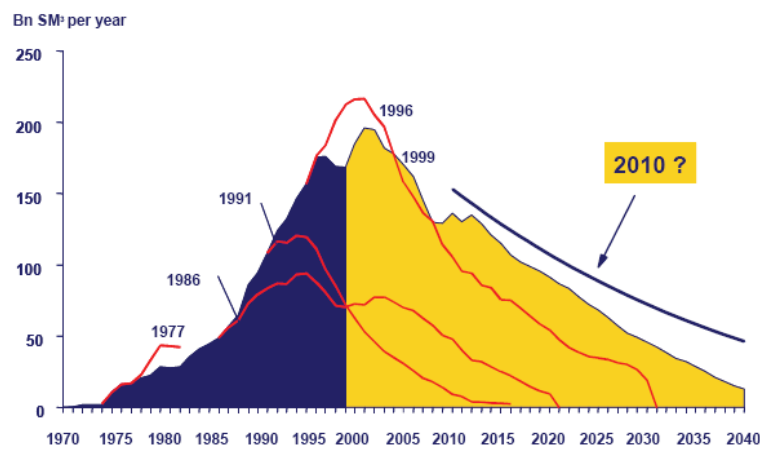


Figure 1. Expected and realized petroleum production on the NCS in 1970–2040³²

²⁹ See: <http://www.regjeringen.no/en/dep/oed/press-center/Press-releases/2007/The-right-of-reversion--The-Government-s.html?id=477332>

³⁰ Gylfason, 2001, *op. cit.*

³¹ *Ibid.*

³² Fjell, Olav. "Norway, the petro-nation. Today and in 10 years", presentation at Paradox of Plenty Seminar, 8 March 2002.

In 1980, petroleum production in Norway reached ca 60 million sm³o.e. Production continued to rise in the two following decades, while, due to the application of more efficient technological solutions, the share of oil and gas extracted from existing fields doubled, from 20 to 40%. New discoveries on the NCS and new technological solutions have also contributed to extending the planned production cycle on the NSC to far beyond 2040 (see Fig. 1).

Until 1988, the goal was to produce maximum 90 million tonnes of oil equivalent of gas and oil per year. This was meant to secure longer activity in the country's petroleum sector and was seen as important from the economic perspective.³³ For many years, gas production was expected to reach the level of 70 bcm and then stagnate; however, according to recent estimates, it may reach as much as 100 bcm in the foreseeable future and increase even to 120 bcm by 2020.³⁴

Another important step in the realization of the Norwegian energy strategy was the 1984 decision to create the State Direct Financial Interest (SDØE – SDFI) as a portfolio of licenses for petroleum and natural gas on the NCS, directly owned by the Norwegian state. Since 1 January 1985, SDFI has been the most important source of incomes generated by the country's petroleum sector. Until 2001, the SDFI was managed by Statoil; since 2001, Petoro has had that responsibility. Through this arrangement the state participates in the Norwegian petroleum sector directly as an investor. The SDFI has a direct financial interest in 121 production licences on the NCS. As of January 2008, the value of the SDFI was estimated at approximately NOK 834.8 billion (more than USD 110 billion). In 2007, net cash flows from the SDFI portfolio totalled NOK 111.2 billion (~USD 15 billion); for 2008, this figure is expected to reach NOK 122.9 billion (~ USD 17 billion).³⁵

Two other important steps in the brief history of Norway's petroleum sector have been the partial privatization of Statoil in 2001 and this company's merger with Hydro's gas and oil division in 2006. As a consequence of privatization, the state's share in Statoil was expected to

³³ Willoch, Kåre. "Oljemakt på hjemmebane – myter om oljepolitikken", in Maiken Ims and Fredrik Engelstad (eds.). *Olje og makt*, in Makt- og demokratiutredningen, Report no. 56, at <http://www.sv.uio.no/mutr/publikasjoner/rapp2003/rapport56/index.html>, 2003.

³⁴ Arnstad, Marit. "Oljemiljøet, miljøet og den politiske beslutningstakeren", in Maiken Ims and Fredrik Engelstad (eds.). *Olje og makt*, in Makt- og demokratiutredningen, Report no. 56, at <http://www.sv.uio.no/mutr/publikasjoner/rapp2003/rapport56/index.html>, 2003.

³⁵ <http://www.regjeringen.no/en/dep/oed/Subject/State-participation-in-the-petroleum-sec/the-states-direct-financial-interest-sdf.html?id=445748>

decrease to 67%, but that target was never achieved. Immediately after the decision on privatization was taken in 2001, the state owned 81.7% of shares in the company; by 2004, this figure had sunk to 76.3% and by mid-2007, to 70.9%. In December 2006, Statoil and Hydro announced that the two companies were to merge into StatoilHydro in order to strengthen their position on the international arena. The Norwegian state owned almost 44% of shares in NorskHydro, but following the 2006 merger, the state's share in the merged company decreased to 62.5%, almost 5% below the target set in 2001. In June 2007, the Norwegian Parliament decided that the state's share should be increased to 67%.³⁶

The energy strategy aims not only at addressing past and current challenges: it is also intended to secure the future of energy sector in Norway. According to recently published Konkraft study³⁷ on the future of Norway as an energy nation, this strategy seeks to ensure that Norway maintains strong, balanced economic growth, that the country becomes a significant exporter of CO₂-effective energy and expertise, and that it develops an energy and environmental technology cluster of world standard. This future of Norway as an energy nation will be shaped by the decisions taken today and tomorrow by a range of actors involved in the process. Who are those people and institutions that are today responsible for designing and implementing the country's energy strategy?

Actors

The main agenda-setter — and actor — in Norway's energy sector is undoubtedly the Norwegian State. However, also other actors contribute to shaping the country's energy policy. Those actors belong to various categories, and the list of these actors contains both national and international oil companies, both Norwegian and international companies from the service industry, several non-governmental organizations (NGOs) and at least one supranational organization, the European Union, that is Norway's most important energy client.

³⁶ For more on that process see: http://www.regjeringen.no/nb/dep/oed/tema/Statlig_engasjement_i_petroleumsvirksomh/statoil-asa.html?id=444383

³⁷ Konkraft. *Energinasjonen Norge. Videreutvikling og fornyelse i en ny miljø- og geopolitisk æra*, Konkraft Rapport 1, Oslo, 2008.

A good overview over the state actors' views on Norway's energy policy can be found at the official website of the Norwegian Ministry of Petroleum and Energy.³⁸ This policy has also been outlined in many speeches and presentations given by representatives of the Norwegian Government.³⁹

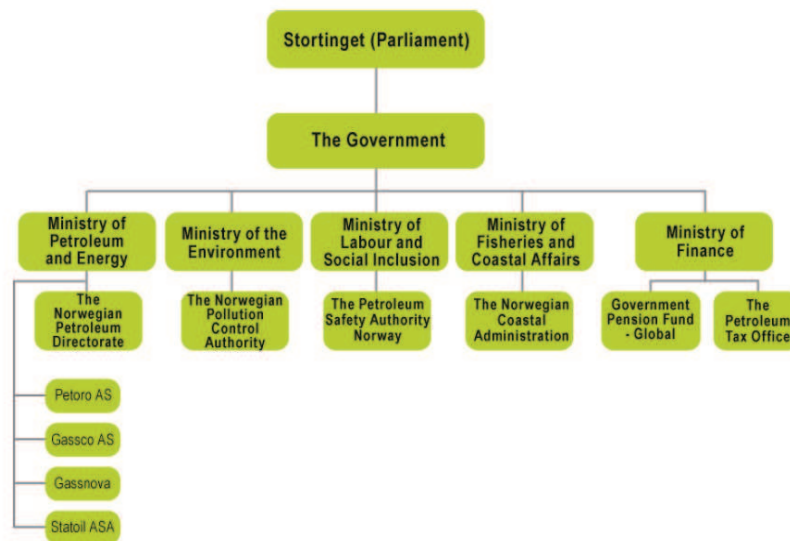


Figure 2. State actors in the Norwegian energy sector.

The actors shown in Figure 2 have the following areas of responsibility in the shaping and implementation of the country's energy strategy:

The Norwegian *Parliament* (the Storting) establishes the framework for Norway's petroleum activities by passing legislation and adopting propositions, as well as discussing and responding to white papers on petroleum activities. All major development projects and matters of great public importance must be discussed by the Storting. The Storting also supervises the Government and the public administration.

As for the *government ministries*: The Ministry of Petroleum and Energy is responsible for resource management and for the sector as a whole. The Ministry of Labour and Social Inclusion has the responsibility for health, the work environment and safety in the energy sector. The Ministry of Finance deals with the collection, management and

³⁸ <http://www.regjeringen.no/en/dep/oed/Subject/Energy-in-Norway.html?id=86981>

³⁹ <http://www.regjeringen.no/en/dep/oed/whats-new/speeches-and-articles.html?id=761>

distribution of state revenues from the energy sector, while the Ministry of Fisheries and Coastal Affairs has the main responsibility for oil-spill contingency measures and the Ministry of the Environment is responsible for the external environment and for upholding environmental standards in the energy sector.

In addition, there are also *other bodies and organizations* working specifically on energy-related matters. The most important of these are the Norwegian Petroleum Directorate (NPD), Petoro, Gassco, Gassnova and StatoilHydro, all dealing with petroleum-related issues, and the Norwegian Water Resources and Energy Directorate (NVE), Statnett and Enova, in the electricity sector.

NPD is responsible for the management of Norway's petroleum resources, and acts as an important advisory body for the Ministry of Petroleum and Energy. NPD has management authority in connection with exploration for and exploitation of petroleum deposits on the NCS and authority to issue regulations and make decisions according to the rules and regulations established for petroleum activities. Petoro is a state-owned corporation responsible for the operations of the State's Direct Financial Interest (SDFI) on behalf of the state. Gassco is a state-owned corporation responsible for the transport of natural gas from the NCS, while Gassnova is an administrative agency tasked with promoting and supporting the innovation and development of environmentally-friendly gas-power technology.

The NVE is the regulator for Norway's electricity industry and its hydro-assets, and is responsible for the administration of the country's water and energy resources. Statnett is responsible for the construction and operation of the central electricity grid. It owns about 87% of the central grid, and operates the entire system. Enova is an autonomous public enterprise responsible for promoting energy savings, new renewables, and environmentally-friendly natural gas solutions.

A very specifically Norwegian solution is the Senior Management Forum (*Toppledertforum*) that was established in 2000 and is chaired by the Minister of Petroleum and Energy. The Senior Management Forum is an arena where 37 senior managers from oil companies, the supply industry, employees' and employers' organizations, research institutes and the authorities meet to discuss key challenges and proposals for concrete measures. This body is intended as a discussion forum, and does not take any formal decisions on oil and gas policy although it is seen as an important meeting place for state and non-state actors

operating in Norwegian energy sector where they can signal problems and discuss how to settle them. As mentioned, StatoilHydro is state-owned integrated gas and oil company in which the state has 62.5% of the shares. It is the main operator on the NCS. StatoilHydro is not only an important company⁴⁰ but also one of the key actors in the Norwegian and international energy game.⁴¹ The merged company stands for 6% of the country's investments, 9% of GDP, 13% of the Government's revenues, and 18% of the country's export. The company operates on 39 gas and oil fields on the NCS, has 18 floating rigs, 50 vessels and almost 8,000 employees.⁴² StatoilHydro is, however, only one of many Norwegian and foreign companies operating on the NCS. According to the most recent data, there were 57 companies active on the NCS in 2008, with 393 active licences and 396 operatorships.⁴³ Almost all major international companies are to be found on that list, but there are also many newcomers.

Although the Norwegian Ministry of Foreign Affairs (MFA) does not figure on the official list of state bodies responsible for realization of the country's energy strategy, over the past four years the MFA has become an active player in the shaping of Norway's energy future. This is mostly due to renewed interest in the High North and closer energy collaboration with Russia in the development of energy resources in this area. Those policies are driven first and foremost by the MFA and by StatoilHydro, which is interested in further internationalization of its activities and defines cooperation with Russian energy sector as one of its top priorities. Especially interest in joining Gazprom in the development of the second biggest off-shore Shtockman gas field has been very high on both political and business agenda. It seems even that the merger of Statoil and Hydro was driven mainly by the wish to become a more attractive partner for the Russian gas giant. The fact that information on inviting StatoilHydro to join Gazprom and Total in developing that gas field was conveyed directly by Russian President Vladimir Putin in a telephone conversation with Norwegian Prime

⁴⁰ For more on that aspect see: Sandnes, Cathrine, and Bent Sofus Tranøy. "Tillitsmannen – intervju med Helge Lund". *Samtiden*, no. 2, 2008, pp. 40–53.

⁴¹ For more on the international role of StatoilHydro see: Noreng, Øystein. "Statoil som internasjonal actor". *Samtiden*, no. 2, 2008, pp. 30–38.

⁴² Norheim, Hege Marie. "Seas of opportunity. StatoilHydro's first year on the NCS", presentation at ONS Press Briefing, 27 August 2008, Stavanger.

⁴³ <http://www.npd.no/NR/rdonlyres/24468CE3-30DC-497F-9E43-501FBC48A131/17572/Appendix1.pdf>.

Minister Jens Stoltenberg, on 25 October 2007, shows how much importance was attached to this project, not only in business but also in political circles.

In addition to state and business actors, also Norwegian NGOs — especially those working on environmental issues, such as Bellona, Nature and Youth, Future in Our Hands, WWF-Norway⁴⁴ — influence the process of shaping of Norway's energy policy. Their focus on the negative impacts that fossil energy has on the global environment and their work on finding new solutions to energy and climate dilemmas — like Bellona's work on CO₂ capture and storage (CCS) technology — is a good illustration of the importance of such NGOs in the Norwegian energy debate. They also play an important role in informing the general public on various aspects of energy- and climate-related issues, and have been central in getting the state to limit the energy companies' access to certain areas on the NCS, to protect these areas from negative impacts. Also, Norwegian NGOs working on human rights have made both the Norwegian State and Norwegian energy actors focus more on human rights challenges in countries where these companies have invested or plan to invest.

Another important aspect here is the focus of some state bodies, political organizations and NGOs on how the revenues accruing from the energy sector are managed and invested. This has resulted, among other things, in the setting up of the Council on Ethics for the Government Pension Fund — Global, to provide evaluations of whether investment in specified companies is consistent with established ethical guidelines.⁴⁵

Although Norway is not an EU member, the European Union plays also an important role in defining Norwegian energy policy.⁴⁶ On the one hand, the EU is the most important energy customer and market for Norwegian energy commodities, and this market position gives EU possibility to shape Norwegian energy policy. On the other hand the EU does set the European energy agenda and influences Norwegian energy policy also in that indirect manner. But the EU, its market power notwithstanding, is not always successful in making its energy suppliers

⁴⁴ For a list of Norwegian NGOs working on those issues see: http://www.ngonorway.org/index.php?option=com_content&task=blogcategory&id=17&Itemid=24

⁴⁵ See also: http://www.regjeringen.no/en/sub/Styret-rad-utvalg/ethics_council.html?id=434879

⁴⁶ On the EU's role on the Norwegian energy interests map see: Stubholt, Liv Monica Bargem. *Global and European Energy Challenges: Viewpoints from Norway*. Oslo: OED, 2007.

play by the rules set by Brussels. Even in the case of Norway that shares both EU's norms and values, and is seen as a reliable energy supplier, there are still some unresolved problems in energy cooperation. The most visible manifestation of these problems is the fact that Norway has not yet ratified the Energy Charter Treaty after having signed it in 1995. The main reason is the issue of dispute settlement mechanism proposed in the treaty that is seen as contradicting the Norwegian regulations. The lack of EU membership and ECT ratification, does not, however, prevent Norway from developing intense energy cooperation with the EU that is also in that way given some power to shape the country's energy policy, along with the whole range of other actors taking part in that process.

Domestic and international energy policy

Norway's energy strategy addresses not only issues of strategic importance for the development of the sector but also more down-to-earth energy problems. The 2005 IEA report on Norway⁴⁷ describes the country's energy policy as being in line with the 3Es as outlined by IEA: economic efficiency, energy security, and environmental sustainability. According to that study, main energy-policy objectives are the creation of wealth within a framework of sustainable development; securing supply of power in Norway through international interconnections and diversification of power sources; limiting energy use in Norway, through policies, to a level below which would occur without active Government policy; and production of the country's petroleum assets with minimum impact on the environment and safety.

Norway's energy policy is currently being realized by a coalition government that came to power after the elections of 12 September 2005 and that is to rule the country until September 2009. The new government promised to promote new, renewable energy sources and apply environmental standards to other energy production. The Government also announced that it wanted to find solutions that could reduce emissions of greenhouse gases, as well as ensuring that a larger share of the natural gas produced on the NCS could be used in the domestic industrial, energy and transport sectors in compliance with Norway's international climate commitments. Further: Norway was to become a

⁴⁷ IEA. *Energy Policies of IEA Countries. Norway 2005 Review*, Paris: IEA/OECD, 2005, p. 19.

world leader in the environmentally-friendly use of gas, and the state was to participate in funding infrastructure for the transport of natural gas. In addition, the Government pledged measures to encourage CO₂ capture, transport and storage, including at Kårstø. The Government also promised not to initiate petroleum activities in the Nordland VI area during this parliamentary period, and to decide which parts of the remaining areas off the Lofoten Islands and further north, including the Barents Sea, are to be opened up and which are to remain closed to petroleum activities.

As mentioned, Norway, its enormous energy resources notwithstanding, faces several challenges. Due to the structure of its energy production and consumption, and the composition of its energy mix, the most pressing challenge is the possibility of energy shortages in years with low precipitation.

Here Norway has various options available. Firstly, it can import energy from abroad in periods with shortage of domestically produced energy, and then export energy to foreign markets when domestic production is higher than domestic needs. In addition to the close cooperation with its Nordic neighbours, another important step was taken in 2008, with the submarine power cable NorNed linking the electricity grids of Norway and the Netherlands, increasing both countries' security of supply. Secondly, Norway can use its petroleum resources in order to address this problem. Thirdly, the country can step up its hydropower production and/or build new production capacity based on renewables. Fourthly, it can conduct a policy aimed at decreasing the consumption of energy, thereby eliminating the need to increase production capacity.

The question of the use of own petroleum resources to address the problem of hydropower shortfalls is perhaps the most complicated one, due to its economic and political nature. In purely economic terms, the main hindrance is the cost of energy production. According to a 2003 study on energy issues conducted by the Confederation of Norwegian Enterprise (NHO), the cost of production of 1 kWh in the Nordic context is as low as 2 Norwegian øre in the case of water and wind, approximately 5 øre for nuclear energy, more than 10 øre for coal, 30 øre for oil and as much as 50 øre for gas.⁴⁸ In the Nordic context, both oil and gas as a means of producing electricity are far too expensive and are

⁴⁸ NHO. *Energiolitikk 2010. Økende mangel eller bedret tilgang*, Oslo: NHO, 2003, p. 8

suitable only in true crisis situations when the demand for energy in Nordel exceeds than 400 TWh.

As far as the specifically Norwegian approach to the issue is concerned, Norway decided to improve its security of energy supply by building a natural gas-fired thermal power plant at Kårstø in western Norway. This power station has an installed effect of 420 MW, with an annual production capacity of 3.5 TWh, equivalent of 3% of Norway's electrical production. It consumes 0.6 BCM natural gas/year, or 0.5% of Norway's natural gas export. The Kårstø plant started operation in November 2007, but then, with relatively low electricity prices, and high oil prices driving the price of gas up, it emerged that energy production at the plant would not be profitable, and it has been turned off for most of the time.⁴⁹

The use of oil and gas for electricity production is also sensitive in political terms, not least since the energy sector is the biggest polluter and emitter of CO₂. In 2005, the total emission of climate gases in Norway was 54 million tonnes of CO₂ equivalent — and here the petroleum sector was responsible for 13 million, transport for 18 and heating for 9. Although Norway is the cleanest oil and gas producer in the world, emitting only 7.8 kg CO₂ per barrel of oil equivalent — much less than other producers in Europe (10.1), the Middle East (12.3), Russia (19.8) and Africa (39.1)⁵⁰ — opposition against pollution caused by energy production and consumption is much stronger in Norway than probably in any other major energy-producing country. Disagreement on using gas to produce energy without CO₂ capture led, for instance, to the demise of the first Bondevik government in 2000. In 2007, the decision was, however, made to build the Skanled gas pipeline from Kårstø to southern Norway and then to Sweden, Denmark and possibly Poland. The project is to address the issue of possible energy shortages in this heavily industrialized part of the country.

Norway could also solve its energy dilemma by increasing the production of energy from renewables. According to the most recent estimates,⁵¹ Norway's renewable energy reserves are as follows: ca 40 TWh in hydropower available from not protected areas, 35–40 TWh of wind power and ca 25 TWh of biofuels and biomass.

⁴⁹ <http://e24.no/naeringsliv/article2288999.ece>

⁵⁰ Halmø, Gerd. "Norge som energistormakt", available at http://www.nho.no/getfile.php/filer%20og%20vedlegg/Naeringslivets_klimapanel_-_seminar_24_09_2008_halmoe.pdf, 2008.

⁵¹ Skjelbred, Erik. "Energibransjens bidrag til å redusere norske klimagassutslipp", available at http://www.nho.no/getfile.php/filer%20og%20vedlegg/Naeringslivets_klimapanel_-_seminar_24_09_2008_skjelbred.pdf, 2008.

More focus on energy saving and efficiency can also help to deal with the problem of energy shortages, as this may lead to lower demand for energy, while also helping to reduce emissions of harmful climate gases. The policy of the current Government is intended to result in greater use of renewables and energy savings that by 2016 would correspond to 30 TWh. By 2020, the emission of climate gases should, according to official documents, decrease by 30% (15 to 17 million tonnes), and the use of more renewable energy is a key element in this strategy. The long-term goal is to make Norway a CO₂ neutral economy by 2030.⁵² Combined, these measures should also contribute to Norway having a surplus of energy in years with normal weather conditions by 2020. This would help avoid swings in the energy market and solve one of the current problems — the instability of demand and supply on the Nordic and Norwegian energy market caused by the relatively high share of hydropower in the total energy balance of the region.⁵³

In addition to addressing domestic energy challenges, Norwegian energy strategy has also a clear international slant. Norway is one of the key providers of relatively safe energy to the European continent, as supplies of energy from Norway are seen as not entailing high political risk. This is partly due to the fact that the authorities have avoided politicizing energy, instead approaching questions of energy cooperation in purely economic manner. Norway has been willing to collaborate on energy with anyone who could agree on a sound economic framework. On the other hand, Norway decided not to join the oil producers' club OPEC, and it rejected a Russian invitation to coordinate cooperation in the area of gas. Since 1974, it has had a special agreement on cooperation with the International Energy Agency (IEA) that acts as energy policy advisor to 28 industrialized member-countries in their efforts to ensure reliable, affordable and clean energy.

Norway has over the last three decades played an important role as a reliable supplier of energy to its main international partners. International perceptions of Norway have been shaped by its energy role. In his study of Norwegian strategic challenges, the late admiral B. Kibsgaard⁵⁴ identified five important factors as influencing international perceptions of Norway.

⁵² For more on climate policy see Sørensen, Heidi. "Regjeringens klimaarbeid", available at http://www.nho.no/getfile.php/filer%20og%20vedlegg/Naeringslivets_klimapanel_-_seminar_24_09_2008_soerensen.pdf, 2008.

⁵³ NHO, 2003, *op. cit.*, p. 8.

⁵⁴ Kibsgaard, Bjørnar. *Norske havområder: Strategiske og sikkerhetspolitiske utfordringer*. Security Policy Library 9. Oslo: Den norske Atlanterhavskomite, 2000.

These were: 1) the country's role as the second (in 2000) exporter of oil; 2) Norway as the second biggest (after Russia) exporter of gas to Europe; 3) Norway's control and responsibility for the greatest economic zone in Europe; 4) Norway's role as an exporter of capital; 5) Norway's control of territory that is important from a geopolitical and military point of view.

By becoming an important energy exporter, Norway has been put on the strategic radar screens of countries that see energy supplies as not only a purely economic, but also increasingly a security-related matter. Energy links have been established with several countries that are becoming increasingly dependent on Norwegian supplies in a situation when other actual and potential suppliers of energy, among them Russia, are viewed with growing suspicion. This may give Norway a possibility to use its energy power also as a political tool, although Norwegian policy makers have been very cautious in making political use of energy, and the non-politicization of energy has been one of the key elements of the official strategy. It seems, however, that in the situation when all other actors seem to politicize — some of them even choose to securitize — energy related issues, Norway will be, albeit unwillingly, drawn into this debate on the political dimension of energy.⁵⁵

The fact that Norway is an important international energy player with high energy stakes especially in Europe has been a central factor shaping its foreign and security policy.⁵⁶ On the one hand, an important objective of the country's security policy is protection of the country's energy resources against threats of various characters. On the other hand, these resources are used in order to "attract" attention, now that Norway has lost much of its geopolitical importance due to the end of the era of confrontation with the Soviet Union when Norway had several geopolitical assets of strategic value for the Western alliance and the USA.

Norwegian foreign and security policy is shaped in the "strategic triangle" made up of the USA, Europe (the EU) and Russia. The USA has been traditionally seen as the most important strategic provider of security; Europe is Norway's most important trade partner; and Russia has gone from being seen as a source of strategic threat during the Cold War to being a challenging neighbour as well as a potentially attractive partner in some strategic projects of regional and global significance.

⁵⁵ For more on that see: Godzimirski, Jakub M. "Energi: næring eller politikk?". *Dagbladet*, 12 February 2007.

⁵⁶ For more on that see: Rottem, Svein Vigeland; Geir Hønneland and Leif Christian Jensen. *Småstat og energistormakt. Norges sikkerhetspolitiske rolle i nord*. Oslo: Fagbokforlaget, 2008.

Norway has established important energy relationships with all three elements of this strategic triangle. The country exports oil to the United States (4.4 million tonnes in 2007) and is to send LNG from its Snøhvit field to the US market; Norway is an important energy exporter of gas and oil to the EU, covering more than 24% of the EU import of gas and almost 16% of its oil import; and Russia is to play an important part in Norway's plans to internationalize the activities of its major energy company, StatoilHydro. In 2006, the energy debate in Norway was dominated by two factors — the very low water levels in reservoirs, which could lead to energy shortages and high energy prices; and the heated debate on the future role of Statoil and Hydro in the development, in cooperation with Gazprom, of the huge Shtockman gas field in the Barents Sea.⁵⁷ Even Gazprom's decision to develop the Shtockman field without Western partners (as announced in October 2006) did not stop Norwegians from trying to make energy friends with Gazprom. The merger of Statoil and Hydro in 2007 and Gazprom's realization that developing Shtockman would require expertise that company did not have resulted in a new opening — in October 2007 StatoilHydro was invited to join Gazprom and Total, and a strong energy link with Russia was thus established. Energy cooperation with Russia may, however, suffer setbacks due to various factors. Firstly, developing of the Shtockman field may prove far more difficult than expected, in technological, economic and political terms. Secondly, Russia's anti-Western turn may lead to squeezing of the Western companies out from Russia, which to some extent has already been the case. Thirdly, Norway may face an "energy loyalty dilemma" if its traditional NATO allies view energy dependence on Russia as a strategic challenge. This was indicated, for instance, in the final declaration from the Riga Summit in 2006 stating that energy security should become a joint NATO concern.

In pursuing its international energy goals, Norway can be confronted with several strategic dilemmas. Two Western energy experts invited by the Norwegian MFA to share their views on that topic — Jonathan Stern and Amy Jaffe Myers — have given some hints as to what these challenges could be.

⁵⁷ For more on that see: Godzimirski, Jakub M. "Pipelines and Identities. Current European Debate On Energy Security: Shtokman and NEGP Case", in Greg Austin and Marie-Ange Schellekens-Gaiffe (eds.). *Energy and Conflict Prevention*. Brussels: Madariaga European Foundation, East/West Institute and the Bank of Sweden Tercentenary Foundation, 2007, pp. 154–180.

According to Stern,⁵⁸ Norway's main problem is whether "Norwegian national interests lie with the European Union or with other countries which supply gas to the EU". Myers⁵⁹ noted that "one must make a distinction between Norway's national interests as a country and the Norwegian Government's commercial interest in StatoilHydro's operations", and added that the main question was whether Norwegian society really wished to profit from StatoilHydro earnings made through deal-making with regimes whose policies are inconsistent or conflict with Norway's other foreign policy priorities.

Surely, this tension between what is feasible in purely business terms in the short and mid-term perspective but is bound up some political risk in the strategic, mid- and long-term perspective will also shape Norwegian energy policy towards the Baltic Sea region.

Norway and the Baltic energy game

Norway is linked to the Baltic Sea region in many different ways. It is a party to the Nordic cooperation, and that has a strong Baltic dimension — three out of the five members of the Nordic Council are located on the shores of the Baltic Sea. Although not a Baltic country in purely geographical terms, Norway is also one of the founding fathers of the Council of the Baltic Sea States. This major regional cooperation organization was established in 1992 in order to cope with the new challenges and benefit from new opportunities caused by the collapse of the Soviet system. Although in 1994, Norway again rejected membership in the European Union, the country is a part the European Economic Area. It has become an important trade and energy partner of the EU, which expanded to the Baltic Sea region first in 1995 and then further in 2004. In addition, Norway is also one of the founding fathers of the Western alliance, NATO, which also has moved into the region with new members on the southern and eastern rim of the Baltic Sea. Then there is Russia, NATO's new strategic partner and the source of some concern, controlling the Baltic Sea shore from Viborg to Narva and from Neringa to Piaski on the borders of the Kaliningrad region.

⁵⁸ Stern, Jonathan. „Globalisation, national interests and Norwegian energy policy“, in MFA, *Energipolitiske interesser og utfordringer, Globale Norge – Hva nå? Friske blikk på norsk utenrikspolitikk*. Oslo: MFA, 2007, pp. 11–14.

⁵⁹ Jaffe, Amy Myers. "Geopolitical positioning in petroleum resources and Norway's energy and foreign policy interests", in *Energipolitiske interesser og utfordringer, Globale Norge – Hva nå? Friske blikk på norsk utenrikspolitikk*. Oslo: MFA, 2007, pp. 15–24.

In order to understand what role Norway can play in the regional energy game we have to understand the existing energy relationships in the region, the infrastructural limitations, how the actors involved in this energy game perceive regional energy challenges and opportunities, and finally, how the Norwegian energy strategy fits into this overall regional context.

Norway has a huge potential to become an important energy player in this region where the majority of the countries depend on energy supplies from Russia, treat this energy dependence on Russia as a security concern and are interested in diversifying their energy supplies. With its considerable energy resources, Norway could provide what would be seen as “safe energy” in political and security terms. Norway’s record of behaviour as an energy player in other arenas has made it a non-threatening supplier — in stark contrast to Russia, which many of its energy customers see as posing a security risk. However, Norway has not been able to play this positive energy role in the Baltic Sea region

Table 3. Baltic Sea Region countries as energy customers of Norway, 2007

Country	Export of gas bcm ⁶⁰	Export of oil million tonnes ⁶¹	Electricity number of connectors ⁶²	Export of electricity from Norway GWh ⁶³	Import of electricity to Norway GWh ⁶⁴
Germany	25	8.8	–	–	–
Poland	–	0.6	–	–	–
Sweden	–	4	9	11,144	3,826
Denmark	–	1.8	1	3,974	1,159
Finland	–	0.5	1	202	110
Lithuania	–	–	–	–	–
Latvia	–	–	–	–	–
Estonia	–	–	–	–	–
Russia	–	–	1		190

⁶⁰ http://www.ssb.no/english/subjects/09/05/muh_en/tab25-01.shtml

⁶¹ *Ibid.*

⁶² Nordel statistics, 2007, *op. cit.*

⁶³ *Ibid.*

⁶⁴ *Ibid.*

due to serious infrastructural constraints that still limit its ability to provide region with energy. To what extent Norway will be able to expand its energy role in the region will depend on several factors of a technical, economic and political nature.

Table 3 makes clear the relatively low level of the Norwegian energy presence in the Baltic Sea region. Norway has a relatively strong petroleum (both gas and oil) relationship with Germany. It provides Sweden, Denmark, Poland and Finland with some oil; has close electricity cooperation with its Nordic partners and some with Russia, but no energy connections whatsoever with the three Baltic republics of Estonia, Latvia and Lithuania.

Norway could increase its energy presence in the Baltic Sea region, but this would require several technical measures. For instance, construction of an electricity connector between Sweden and one or two countries on the other side of the Baltic Sea, such as Lithuania or Latvia, could give Norway indirect access to the Central European electricity grid in addition to the existing connections through Sweden/Poland or Sweden/Germany and Denmark/Germany.

Norway has already become an active player in Nordel in order to cope with its own energy challenges and this cooperation can be described as a success story. Nordel is to promote the establishment of a seamless Nordic electricity market as an integral part of the Northwest European electricity market, in order to maintain a high level of security in the Nordic power system.⁶⁵ In 2007, Norway participated in electricity exchange in the Nordel area as follows⁶⁶: Norway received 5,285 GWh and exported 15,320 GWh, resulting in a surplus of 10,035 GWh. Most energy was received from Denmark (1,159 GWh) and Sweden (3,826 GWh) and was sent to the same markets — Sweden (11,144 GWh) and Denmark (3,974 GWh). Nordel cooperation has proven an effective tool for dealing with seasonal energy shortages. This is especially important for Norway, which may have an electricity shortfall of up to 9 TWh in a normal year and as much as 22 TWh in very dry years (Table 4). This dependency on weather conditions makes Norway the most vulnerable of all Nordel members. Energy shortages can have negative consequences for all of society — but especially for Norwegian industry, which consumes 42% of the electricity, and for the housing sector, with a 34% share in consumption.⁶⁷

⁶⁵ For more on Nordel see: www.nordel.org

⁶⁶ Nordel, 2008, *op. cit.*, p. 16.

⁶⁷ Nordel, 2008, *op. cit.*, p. 11.

*Table 4. Energy balance in Nordel area, two scenarios, in TWh*⁶⁸

Country	Normal year	Very dry year
Norway	-9	-22
Sweden	+9	-8
Finland	-4	-9
Denmark	+20	+17

But it is not in electricity that Norway could really make a difference. Due to the character of the European gas market and the overdependence of most countries in the region on gas supplies from Russia, Norway could play an important part in diversifying gas supplies in the Baltic Sea region. However, that could be seen as an energy challenge by Gazprom/Russia, which tends to treat this area as its own exclusive zone of gas influence. Given Norway's expressed interest in closer energy collaboration with Russia in the High North, this could be seen as entailing a certain political risk also in Oslo.

On the other hand, over the past ten years, Norway has shown willingness to expand its share on the Central European gas market, Gazprom's possible objections notwithstanding. The most successful of these bids was the Norwegian entry into the Czech gas market, where Norway now sells 2.4 bcm (as against Russia's more than 7 bcm) of gas per year. Until recently, Norway also provided Poland with 0.5 bcm of gas per year, but that contract is now terminated and the future of the Norwegian–Polish gas trade is still unclear.

Poland is the country in the region that has done the most to diversify its gas supplies in recent years, and Norway features centrally in these Polish energy designs. On 3 September 2001, the prime ministers of Poland and Norway signed a highly symbolic deal on deliveries of Norwegian natural gas to Poland. According to this deal, Norway was to provide Poland with 74 bcm of natural gas in the period 2008 to 2024. The contract, signed by Statoil and PGNIG, was worth nearly USD 12 billion. It would give Statoil a strong position not only on the Polish market but also — in the longer run — on the Central European market, thus challenging Gazprom's dominant position in that region.⁶⁹ Although

⁶⁸ <http://www.nordel.org/content/default.asp?pagename=openfile&DocID=3392>

⁶⁹ <http://www.rferl.org/newsline/2001/09/100901.asp>

the new Polish Government decided to withdraw from that ambitious project, which would unquestionably have increased the Norwegian energy presence in the Baltic Sea region, in 2006, a new agreement between Poland and Norway was signed on possible deliveries of much smaller volumes of Norwegian gas to Poland through the Skanled pipeline that is to link Kårstø with customers in Southern Norway, Sweden, Denmark and possibly in Poland. However, the future of that project (projected costs: more than USD 1.2 billion) remains unclear as there are signals that there is in fact not enough gas to fill the pipe and not so much interest in buying the volumes needed to make the project economically feasible.⁷⁰ Polish–Norwegian cooperation in the energy sphere also resulted in Polish companies investing on the NCS. The Polish PGNiG acquired some assets on the NCS in the Skarv gas and oil field as a step in the realization of not only Norway’s but also Poland’s strategy of diversification of energy supplies. This brief history of Polish–Norwegian energy cooperation — or rather, the failure of such cooperation — also illustrates the challenges faced by actors who have both potential and interest in energy cooperation but lack the political resolve to make it work.

As we have seen, Norway’s role as energy actor in the Baltic Sea region depends not only on its energy resources, but also on the political choices made by both Norway and other actors involved in the regional energy game. Energy collaboration is shaped by various types of actors, and to understand, what role Norway can play in this context, we need to look into Norway’s position on this regional actor map.

Developments in the region are today shaped by relationship between the enlarged West and Russia. Both the West — here represented first and foremost by the EU and by NATO — and Russia have their specific political, economic and energy interests. Unfortunately, the Western and the Russian political projects are based on rather incompatible sets of ideas. The Western integration project is rooted in the liberal paradigm; it is understood as a win–win game and is consensus-based. By contrast, the Russian political project is rooted in the realist paradigm that sees the world as an arena where a zero-sum game is being played out, with rivalry, competition and balance of power seeking as the most important elements of that game.

⁷⁰ *Dagens Næringsliv*, 29 November 2008.

Those paradigmatic differences notwithstanding, the West and Russia have embarked on close energy cooperation, but their approaches to energy are heavily influenced by their political culture. Both Russia and the West have securitized energy. Russia treats its energy resources as a strategic/geopolitical asset and as a useful political and economic lever, but is also worried by what could be termed insecurity of demand. The West securitizes energy in other ways: it is mostly concerned with insecurity of supply, with its own energy dependence, lack of diversification of its energy supplies, and not least the climatic consequences of the use of non-renewable sources of energy. To sum up: the West needs Russia's energy, but is concerned about how Russia will use its energy resources in order to reach its strategic objectives. Moreover, the West has an energy problem not only with Russia, but also with itself. The EU, which could be expected to be the most important and efficient Western energy player, also in the Baltic Sea region, has so far been unable to work out — let alone implement — a common energy policy. This inability to present a unified and coherent approach to energy has made the EU a weak player vis-à-vis Russia. Under Putin, Russia adopted a goal-oriented energy policy, and the Baltic Sea region is today an area of great importance for realization of the Russian long-term energy strategy.

Where does Norway fit in this broader context? In paradigmatic and political terms, Norway belongs to the West although it is not a member of the EU. In energy terms, Norway may have interests that can be more similar to those of other producer countries. Indeed, it has embarked on strategic energy cooperation with Russia in the Shtockman project. On the other hand, Norway has had close energy cooperation with the core countries of the EU; it shares norms and values with them and has strong political connections to most countries in the Baltic Sea region. We may note that many are members of the same political clubs as Norway — the Nordic Council in the case of Finland, Sweden and Denmark; and NATO in the case of all other Baltic countries except Russia. Although other Western actors might expect Norway to use its energy resources to help them address their energy dilemmas, infrastructural constraints and Norway's relatively limited energy resources — and perhaps, Norwegian unwillingness to be seen as an energy rival by Russia — will probably limit the scope of Norway's energy presence in the Baltic Sea region in years to come.

All in all, the direct Norwegian energy presence in the Baltic Sea region seems likely to remain at the same rather low level as today. Norway can, however, play a positive role in energy sphere in an indirect way, by supplying energy to the united Europe and by providing a non-Russian energy option in a short- and mid-term perspective. Here it will be up to the united Europe, to the EU itself and not to Norway, to devise and implement a more unified approach to energy-related issues and to make all members of the EU — also those in the Baltic Sea region — feel secure that Europe will stand together when confronted with a serious energy challenge.

Norway stands out as an energy-producing country that has avoided politicizing its energy role, thus making its energy customers feel more comfortable and less exposed. This could be a good example to be followed by other energy producers whose political use of their energy resources has resulted in many customers' securitizing their energy relationships with their suppliers. It is, however, completely unrealistic to expect that Norway alone could become an energy counterweight to Russia. The two countries' energy resources — especially in gas — are simply not comparable. Russia has the ability to provide Europe with gas for many decades after the end of the Norwegian petroleum era. Norway can, however, share with Russia its know-how on how to build energy relationships with its customers without making them feel insecure, and how to best manage energy resources and revenues to the benefit of the nation and its energy partners. Getting Russia to adopt such a pragmatic and non-politicized approach to its energy resources would definitely have a positive impact on energy cooperation also in the Baltic Sea region.