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«Norwegian Petroleum Pride and Shame»

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Issues of energy and climate change will tower above others as political parties sharpen their manifestos and Norway moves towards national elections in 2021. «To produce or not to produce oil and natural gas?» is the Shakespearean question in Norway's polarized public debate on whether to continue, down-size or end petroleum production in a world targeting ambitious action to meet commitments in the Paris climate accord.

Norway is a substantial producer and exporter of oil and natural gas, supplying about 2 % of global oil demand and 3 % of global natural gas demand, while 96 % of domestic electricity is generated by carbon-emission-free hydropower. In recent months, the government has been highlighting more visibly the importance of continued exploration for and production of oil and natural gas. It is in the forefront celebrating the first oil from the new gigantic field Johan Sverdrup as well as the 50th anniversary of the Ekofisk field – both «cash cows» set to fuel the Norwegian economy and welfare state for another fifty years. Development of carbon capture and storage is a political priority. The importance of exports of natural gas from the Norwegian Continental Shelf (NCS) for Europe's security of energy supply along with optimistic assessments of future market demand, not least in an energy transition, is being underscored. Norway supplies one-fourth of European natural gas demand.

Echo-Chamber Debate

At the same time, pitted against government and industry «petroleum optimism and pride» in Norway's public debate is «petroleum pessimism and shame». Some politicians, NGO's and youth demand the dismantling of petroleum activity and promotion of renewables, so as to be part of the solution, leading the way for global efforts to reduce carbon emissions and limit climate change, instead of remaining part of the problem.

Their call for setting a date for terminating the allocation of new production licenses in parts or all of the NCS, and ultimately for terminating oil and gas production altogether, is increasing in volume. As we approach national elections, their voices will more strongly be countered by official and industry voices that underscore the economic importance of «environmently benign» production of Norwegian oil and natural gas for both welfare spending and employment at home as well as for meeting increasing energy demand abroad.

New petroleum finds will get added publicity. So too, will scientific reports and political statements warning of the need to move away from the fossil fuel economy to a lower-carbon future, if not renewable energy one. There seems little at present to bridge the echo-chamber gap in Norway's polarized energy-climate debate between and within political parties and districts of the country, splitting even families in what has dimensions of generational conflict.

Petroleum Policy Pillars

Norwegian governments of shifting political party composition have underscored the importance of stability and predictability with regard to the main lines of petroleum policy. Minister of Petroleum and Energy Kjell Børge Freiberg (far-right Progress Party) is making the point that «predictable and stable framework conditions and an active licensing policy are two of the main pillars in the Government's petroleum policy», adding that «identifying more resources through exploration is vital for employment, future value-creation and our welfare state». Companies were earlier this year invited to apply for ninety new blocks on the NCS in the North Sea, the Norwegian Sea and the Arctic and more virgin Barents Sea. The Ministry will award new production licenses in these areas in January 2020.

Political Party Dynamics

Opinion polls and municipal election results in September, suggest that national elections in 2021 will bring a change of government, the present Conservative Party led «centre-right» majority coalition being replaced by a «centre-left» one, led by the Social Democratic Party.

The initial government coalition partners - the Conservative Party and Progress Party - can be counted on to carry forward the main lines of Norwegian petroleum policy, their smaller coalition partners – the Liberal Party and Christian Peoples Party less so. Internal petroleum policy disagreement within the coalition government is gathering momentum. The «ice-line», which determines the edge of petroleum activity in the Barents Sea, has emerged as a potentially explosive issue. It could provide the pretext for the Liberal Party, whose opinion poll support has plummeted since joining the Conservative Party-led coalition, to opt out of the majority government coalition, leaving it a minority one well before the national elections in 2021.

The main pillars of Norwegian petroleum policy have so far been supported across the political divide by the Social Democratic Party as well as by the Centre Party. However, the Social

Democratic Party apprears increasingly vulnerable to internal division of opinion. Party leader and potential Prime Minister in new «Red-Green» coalition government, Jonas Gahr Støre, is adament that his party will «develop, not dismantle, the petroleum industry». For this, he has strong industry and trade union support, but he has to deal with increasing opposition within party ranks, especially from his party youth. Persistent plummeting of support to the Party in opinion polls adds to the complexity of navigating in issues, where petroleum and climate policy imperatives clash.

Petroleum activity in the Norwegian Arctic is one such issue. Environment-focused NGOs have taken the Government to court for violating the Constitution by allocating exploration and production licenses in the Barents Sea since 2015. Following the lower court dismissing the case earlier this year, thus vindicating the Government, NGOs have brought case to the Appeals' Court, whose verdict is expected in the very near future.

Fuelling Petroleum Pride

Oil production started at the Johan Sverdrup field, operated by Equinor, on 5 October this year. Present at the Mongstad facility to receive the first oil from the field, Minister Freiberg expressed government pride in this Norway's third largest field ever, expected to generate revenue to the state of more than NOK 900 (USD 98) billion. Powered from shore, emissions from production will be much lower than at conventional fields. Moreover, new technology and digitalization will yield a very high degree of resource recovery, the Minister said.

First phase plateau production of 440,000 b/d will be reached by mid-2020 with subsequent plateau production level at 660,000 b/d, when the second phase is in operation, the field then accounting for one-third of Norway's total oil production. With reserves estimated at 2.7 billion barrels oil equivalent, the field has a fifty year production expectancy. Break-even oil price for full field development is less the USD 20 per barrel.

With additional media attention in October, Minister Freiberg visited the Ekofisk field on occasion of the 50th anniversary of the discovery in 1969 of this first field on the NCS put in production. Noting the Ekofisk area's NOK 2 500 (USD 273) billion value creation, the Minister said it is difficult to over-estimate its importance for Norway as a nation. Production at Ekofisk is expected to continue an additional forty years. Adding to the continued importance of Ekofisk, Minister Freiberg announced on 11 November ministry approval of development plans for the oil field Tor II eying production start in Q4 2020. It will be connected to Ekofisk making use of existing infrastructure, a government objective enabling development of smaller discoveries on the NCS.

The President and CEO of Equinor, Eldar Sætre, added his voice to petroleum optimism noting that «Oil shame» has emerged as a concept in Norway, but adding that it does not solve the climate problem». While the Johan Sverdrup field might be the last giant oil field to be developed on the NCS, he underscored that Equinor has no plans to down-size exploration activity. While Norwegian oil production is expected to increase the next five years or so, its subsequent decline to year 2050 will be greater than that of global oil demand. Thus, argues the Equinor head, production of oil activity on the NCS should be allowed to run its course of natural decline. In fact, Equinor announced on 6 November a new oil and gas discovery, one of the year's largest, with reserves at this stage estimated up to one hundred million oil equivalents.

State Budget 2020

The government presented its draft state budget for 2020 to Parliament on 8 October. Opposition parties are now preparing their alternative proposals. Parliamentary discussion and approval will take place early December. Since the government's draft state budget has been negotiated and approved by coalition partners in advance, their majority vote in Parliament ensures a comfortable «rubber-stamping» approval process.

State net revenue from petroleum activity this year is estimated at NOK 238 (USD 26) billion increasing to NOK 245 (USD 27) billion in 2020. This includes taxes from oil and natural gas companies, revenue from the State Direct Financial Interest (commercially managed by the wholly state-owned Petoro) and dividends from Equinor (majority-owned by the state). The CO2 tax will be increased by five per cent affecting also emissions from the oil and gas industry.

The draft budget emphasizes that new fields in production, especially the Johan Sverdrup in the North Sea and the Johan Castberg in the Barents Sea will more than compensate natural decline in existing fields, so that in 2023, total production will approach that of record year 2004. Investments on the NCS are expected to be around NOK 173 billion in 2020, around one-fifth of total real investments in Norway. Expectation is that investments will decline slightly in the years ahead, but remain at a high level.

Norway's Trillion Dollar Baby

The Government Pension Fund Global (GPFG) passed the NOK ten trillion (USD 1.09 trillion) value mark for the first time on 25 October, boosted by global stock market upturn and weakening of the Norwegian Krone. Fuelled by revenue from petroleum activity, the GPFG is a source of Norwegian pride, but also for some a sign of hypocrisy for a country claiming to be in the forefront of global efforts to reduce carbon emissions. It is the single largest sovereign wealth fund in the world invested in equity (66.3 %), fixed-income assets (30.7 %) and unlisted real estate (3 %) entirely abroad, so as not to overheat the Norwegian economy by investing petroleum revenue in Norway. It owns on average 1.4 % of all listed companies in the world.

State revenue from petroleum activity goes in its entirety into the GPFG, which is not a "pensions' fund" earmarked only for pensions. According to a special fiscal rule, annual withdrawals from the GPFG, not earmarked for any specific purpose, can, be made to balance the deficit in the state budget within a limit up to 3 % of expected real return over time. In this way, the use of petroleum revenue is de-linked from earnings, thus shielding the state budget from fluctuations in petroleum revenue. The idea is also to discourage any temptation for Government and Parliament to go off on an excessive vote-getting and short-term spending spree that would overheat the Norwegian economy.

It is longstanding government policy that the Norges Bank Investment Management, which manages the GPFG, shall be a "responsible investor" seeking highest possible returns at a moderate level of risk. The ambition is also to be an «active owner», voting at shareholder meetings and expressing in dialogue with companies its expectations in areas such as corporate governance, shareholder rights, social issues and the environment. There has been broad agreement in Parliament that the government should not use the GPFG as a foreign or environment policy tool.

Increasing focus on environmental and ethical guidelines for GPFG investments can be expected recalling the objective of the Fund, which is to benefit future generations. With the GPFG already divesting from coal companies, Parliament approved in June government intention for the GPFG to divest also from 134 upstream oil and natural gas companies, the objective being a financial one to reduce the exposure and vulnerability of the Norwegian economy to a sustained fall in oil prices. The new policy does not affect investments in the larger integrated oil and gas companies that in addition to upstream activity are also engaged downstream.

Well-received by political parties and in public opinion, the issue of divesting from this limited number oil and gas companies could, however, be on a «slippery slope» for more to come as originally proposed by Norges Bank and the NBIM for purely financial risk reasons. Such further divestment would be marketed politically by some political parties and celebrated in public opinion also, and mainly, as a Norwegian contribution to reducing global carbon emissions. This month, the leader of the Social Democratic Party brought also the Fund's investments into the polarized energy and climate debate by arguing that they have a broader purpose requiring also political, climate and energy transition considerations, The Prime Minister and Finance Minister dismiss the idea of using the Fund as a political tool as «dangerous», accusing the Social Democratic leader of deviating from longstanding consensus policy.

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