

before 21.8.84, 1100 hours.

ADDRESS TO THE OFFSHORE NORTHERN SEAS 1984

21. AUGUST 1984

NORWEGIAN PETROLEUM POLICY

Your Royal Highness, Distinguished guests,

The ONS Conference has become an important regular event for the international petroleum industry. It is, therefore, a great pleasure for me to address this distinguished audience.

The guiding principle of Norwegian petroleum policy is that the resources on the continental shelf should be developed for the benefit of the society as a whole. There is a broad political consensus that this can best be achieved through national control of the petroleum activities. At the same time, we recognize the need to take into account the international aspects, and we are fully aware of Norway's responsibility as a member of the free world's family of nations.

I think it is fair to say that what we have achieved so far in the petroleum sector has been of benefit both to Norway and to the international community. Our increasing oil and gas export is not only a contribution, however modest, to world energy production. It will also help reduce Western European dependence on external sources of supply. Furthermore, the growth in Norway's national income due to our petroleum revenues, will

enable us to purchase more goods and services and to grant more aid to the developing countries.

On one point we have decided to deviate from the purely commercial criteria: Norwegian oil shall not be sold to South Africa.

The petroleum activities have presented us with new opportunities, but also with problems and demanding challenges.

For a small country like Norway, the national economy is exposed and vulnerable to rapidly increasing oil revenues. In order to stem adverse inflationary effects and strengthen the competitive position of our traditional industries, the domestic use of petroleum revenues must be kept under control and to some extent be separated from the rest of the economy. As in the Odyssey, we are trying to keep a steady course towards our long-range objectives without being led astray by short-term temptation

Let me now turn to some current policy issues, notably the future role of Statoil, our concession and petroleum development policies, the efforts to promote the use of Norwegian goods and services and, finally, our plans regarding development of our natural gas resources.

The agreement in the Storting this spring with regard to State participation in the petroleum activities, was an important and necessary political achievement. The Government is very satisfied that all the main elements

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in our plan for reform received the support of the major parties.

The changes made with regard to government participation must be seen in the light of a growing concern about the possible consequences of vesting too much power and influence in a commercial company like Statoil. It was felt that this would not be in accordance with the basic democratic principles which should guide Norwegian petroleum policies.

The changes adopted will, however, have no consequences for the operational aspects of state participation. Statoil will also in the future play an important role on the Norwegian continental shelf. It will also be given the means necessary to develop further its professional skills and capacity.

A major element in the reform is that state investments and income will no longer be channelled through Statoil alone. They will be divided between the government and Statoil, and a large part of the investments and the income will be channelled directly through the state with Statoil acting as its business administrator.

Furthermore, the voting rules for each license will be restructured. The main rule will be that a majority vote requires a majority of companies, regardless of the size of each company's participating interest. But this majority should represent a certain minimum of percentage interest in the license in question.

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Meanwhile the state has retained a "safety valve". If the board of Statoil and the company's general assembly, that is the Minister of Oil and Energy, consider that important national interests are at stake, decisions according to the principle of "one company one vote" may be overruled. Statoil may then with written instructions from the general assembly, make use of the State's full voting power. Before such action is taken, the Ministry will seek advice from different sources, particularly from the Petroleum Directorate and the Norwegian oil companies concerned. The idea behind this is that decisions which are both controversial and of greater consequence, and which are in reality made on behalf of the state, should be made in a way which makes real parliamentary control possible.

I would like to emphasize that it is now largely up to you who represent the petroleum industry to give substance to this reform. When we have chosen to keep the government out of the daily business decisions, it is because we are relying on the willingness and ability of the companies to cooperate in a business-like manner. In this way we can also ensure that the state's full voting right remains a seldom-used exception to the rule.

The Government is about to finalize a White Paper on The future petroleum activities, mainly based on the report from the so-called Skånland-commission. We agree with the commission that the size of the petroleum sector should be determined in relation to the overall national economy, rather than by a fixed annual production ceiling. *

Another conclusion of this report is that there is a definite need to avoid that changes in the petroleum revenues have a too strong impact on the annual spending of such income. Democratic politicians may feel an irresistible temptation to use whatever revenue which is at their disposal. This aspect of democratic behaviour may make a temporary increase in oil revenue a very mixed blessing for a small country, leading to an increase in the monetary supply which again leads to inflation, and a serious deterioration in the competitiveness of other industries. Institutional arrangements that can create a stronger separation between annual revenues and annual spending will also be considered. Such arrangements may, however, also involve institutional and psychological problems of their own.

We realize that the oil resources will not last forever and that the petroleum sector will never provide jobs for the larger part of our labour force. Therefore, one of the major challenges facing us today is to develop a diversified economic structure with the necessary competitive ability.

During the last decade Norwegian industries have gradually improved their position as suppliers of goods and services to the oil companies engaged on the Norwegian continental shelf. A number of Norwegian companies have also built up a considerable potential for exports to the international offshore markets.

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The government will continue to promote this trend, and I shall mention briefly some elements of this policy:

First of all, I would like to emphasize the importance of maintaining an international environment in the Norwegian offshore sector. Experience and knowledge gained in an open and competitive Norwegian market is a prerequisite to successful internationalization.

Secondly, as a consequence of the reform of Statoil, the Government is now prepared to promote the company's participation in offshore developments abroad. The internationalization of Statoil and the other Norwegian oil companies will provide new opportunities for other sectors of Norwegian industries.

Thirdly, we should make better use of the experience and the contacts established between Norwegian suppliers and international oil companies in The North Sea. The latter could make an important contribution to the further internationalization of Norwegian offshore industry. In the recently presented White Paper on Technology and industrial cooperation, the Government has emphasized the need for long-term cooperation between the international oil companies, Norwegian industry and research institutions.

Finally, the Norwegian authorities are actively seeking to improve the competitive position of the Norwegian offshore suppliers. The recently established research programmes to develop new offshore technology

products are important elements of this policy. We plan to introduce supplementary measures in the near future.

As new areas are opened for development, we shall progressively move into deeper waters and more difficult projects which will require the development of new and advanced technology. In order to succeed, it will be essential for Norway to have access to the expertise and resources of the experienced international oil companies.

Of course, we do not automatically gain such access simply by asking. We will have to organize the petroleum activities in such a way that the oil companies will have a necessary incentive to share their technology with us. To this end we will encourage joint venture operations with Norwegian companies.

Looking at the future, new and somewhat untraditional organizational arrangements between national and international companies may be required. We must seek to combine national and foreign resources in joint operational teams. The cooperation agreement between Saga and Esso on block 34/7 might be an interesting example.

Finally, I would like to say a few words about Norwegian gas policy.

As I have stated on previous occasions, Norway is both able and willing to supply Western Europe with substantial quantities of natural gas. There is in particular considerable interest in the Troll field,

which could become a main supplier of natural gas to Western Europe for many decades. Last year, the blocks covering Troll East were awarded. Troll West was declared commercial.

As you know, agreement was reached earlier this year between Statoil and British Gas Corporation on the sale of the gas from the Sleipner-field. The agreement required the approval of the British Government. Unfortunately, this process has taken a somewhat longer time than we expected. However, following contacts on both governmental and company level in recent weeks, we feel confident that the outcome will be satisfactory to both parties.

In the view of the Norwegian Government, the principle of company responsibility for commercial negotiations should be a guideline also in the future.

Following the sale of the Sleipner gas, Troll phase 1 will be introduced in the market. According to the information I have received, the producing companies can offer up to 15 billion cubic metres per year from the mid-1990's. Extensive studies are also being conducted on Troll East, with a view to declare this field commercial in 1987.

If natural gas shall keep its share of the total energy consumption, Western European countries will have an increased need for new imports from the mid-1990's. At the same time substantial investments will already have

been made in Troll. It is now left to the gas companies to demonstrate the feasibility of field development. They will have to overcome several difficulties, including a water depth of 300-350 metres. Thus, development of the Troll field will entail high development and transportation costs. But I remain confident that European gas companies and Norwegian producers will be able to find viable commercial solutions for bringing Troll gas to the market.

Over the last few years, the Norwegian reserve base for oil has increased substantially, and has thus made us less dependent upon the future natural gas market. In order to maintain the total petroleum activities at a desired level we will have to consider the alternative development of oil. Several oil fields are already under consideration for development, and we plan to step up our exploration for oil in the upcoming 9th and 10th rounds of concession. We will also continue our licencing policy with the opening of blocks with an oil potential, in the Gullfaks and Oseberg areas and elsewhere.

We need to develop flexible oil and gas strategies if we shall succeed in making our society less vulnerable to the uncertainties of the petroleum sector. But, in an international perspective: Regardless of whether we choose to concentrate on oil or natural gas, or a combination of the two, our production will contribute to reduce Western Europe's dependence on external sources of energy.

Thank you for your attention.