PISM | POLSKI INSTYTUT SPRAW MIĘDZYNARODOWYCH
THE POLISH INSTITUTE OF INTERNATIONAL AFFAIRS

BULLETIN

No. 113 (566), 24 October 2013 © PISM

New Government, Same Track: Norway and Its European and Energy Policies

Lidia Puka

A new, centre-right minority government took over power from the centre-left on 16 October 2013. It promises to lead the country to an increase in competitiveness and economic growth. Major challenges, though, concern the sustainable exploitation of the Norwegian Continental Shelf and the creation of a low-carbon agenda. The government also wants to actively participate in the EU decision-making processes and to develop bilateral relations with the main EU players. This creates an opportunity for Poland to intensify energy, security and immigration cooperation with Norway.

From Centre-Left to Centre-Right. Despite a very good performance by Jens Stoltenberg's government, the elections in Norway resulted in a change. After more than a month of coalition negotiations between the four victorious centre-right *Borgerlige* parties, ultimately the minority Conservatives-Progress Party took power on 16 October 2013. The remaining Christian Democrats and Liberals eventually decided not to join but will *support* the government along the lines of the "Coalition Agreement" of 30 September. A detailed government agenda was described in October in the "Political Platform between the Conservative and Progress Party." The parties in government won on the promise of increasing competitiveness and decreasing the gap between the oil and gas sector and the other pillars of the economy ("two-path development"). The way to achieve that, they said, is through privatisation, lower taxes, and the creation of a knowledge-based society, through research and development.

Compared to other European crisis-stricken countries, Norway, with new Prime Minister Erna Solberg, is a country in bloom, with a balance struck between growing the economy and social well-being. Between 2011 and 2012, the real GDP growth rate went up from 1.2% to 3.1%, and unemployment decreased from 3.3% to 3.2%, according to Eurostat, competitiveness improved from 15th to 11th place in the Global Competitiveness Index, and happiness increased, from third to second in the UN World Happiness Report. Looking at macroeconomic performance, the country manages the biggest governmental investment fund, the €585 billion Government Pension Fund Global (formerly, the "Oil Fund"), which not only accumulates wealth for future generations but also serves as a buffer to the state coffers, as some of the money it earns can be directed into the state budget.

Interdependencies with the EU. Norway's ties with the EU can be pictured as being one of a neighbour who in fact lives in the same flat but who has limited influence on any renovations. Norway is not an EU member but has about 75% of EU legislation in common through its association in the European Economic Area, Schengen Agreement, and European Free Trade Association. The EU Member States remain a major export (80%) and import (60%) market for Norway, and the number of migrants from the EU has increased since 2004. The new government sees immigration as desirable, as the country's low unemployment means outside labour is necessary for economic growth. Norway's continuity with European policy is secured by consent on close cooperation with the EU among the major governing and opposition parties—the Conservatives and the Labour Party. Currently, Norway seeks to find an optimal model of collaboration with the post-Lisbon reality of the EU-28 as the EEA was signed with the European Communities of 12 Members. Uniquely, a complex, expert report on the impact of the European agreements on Norway ("Inside-Outside," 2012) is a basis for shaping the country's European policy.

Although four years ago the Conservatives advocated for accession, membership, however, is not an option. The party toned down its stance (defining membership as a "long-term goal" in the party's 2013 pre-election programme, and explicitly stated that the "EEA Agreement is the core of the relations" of its "Political Platform"). Also, the public's opposition towards EU membership remains high (77% in April 2013), and it is highly unlikely the pro-membership side would be able to secure the three-fourths in parliament required under Art. 93 of the constitution (in July 2013, about 39% members of parliament stated they were against membership, or according to the "Nei til EU" survey).

Despite the marginalisation of European affairs in the campaign, the parties are interested in closer Norway-EU cooperation. The emphasis by *Borgerlige* on "competitiveness and growth" is in line with the current EU agenda. According to the party's "Political Platform," the government plans to invest more in leading "more active EU policies and [having a] better presence in EU contexts, reinforced coordination, maximum exploitation of the committees and working groups." This is beneficial for the EU, which sees the potential of Norway's sound economic performance, investment capacities, and oil and gas supplies. At the same time, activities by such a strong partner may require a re-evaluation of the role Norway should play in the EU policy.

Energy: Passing Safely Through Fire and Water? Norway is a global energy player. The country is the third-largest global exporter of gas, 10th in oil, and seventh-largest producer of hydropower (the source of 99% of the nation's electricity). It is the second-largest supplier of oil to the EU after Russia, and in 2012 it was ranked first in gas supplies (with 35%, according to the BP Statistical Review of World Energy 2013). Its flexibility in setting gas prices with the introduction of spot-pricing in the European contracts enables Norway to increase its gas exports to Europe (a total of 107.6 bcm in 2012, or an increase of 16%, according to Eurostat), despite decreasing consumption in the EU. Moreover, the country has developed an energy partnership with Germany—a 10-year (45 bcm) contract between Statoil and Wintershall signed in November 2012 was exclusively based on spot prices, and projects involving electricity grids that would connect German offshore wind parks and Norwegian hydropower plants, are under discussion. Moreover, the country offers stable conditions for the development of hydrocarbons even for European investors. The "Political Platform" provides for continuity in the country's intense licensing policy for extraction and exploration on the Norwegian Continental Shelf, greater competitiveness, and tax relief for investors. At the same time, to gain the support of the centrist parties, the minority government agreed in the "Coalition Agreement" to the four-year moratorium on exploration or production activities at the key ecological sites of Lofoten, Vesteraalen and Senja, and not to conduct exploration or production at Jan Mayen, Skagerrak, Mørefelt, or at the ice edge (*iskant*).

As such, Norwegian energy policy indirectly influences Russia. Bilateral relations focus on creating interdependencies, which found success in the demarcation of the marine border between the countries in 2010. It increased the area allowed for hydrocarbon exploration in the Arctic and led to an intensification of activities by companies in the Barents Sea (such as Statoil, Petoro, Eni, OMV). Recent protests by Greenpeace activists in Russia are likely to be noted by the new government but unlikely to change policy at this time.

In light of all of the above circumstances, a reduction in "dual economic development" might pose a challenge. The public investments planned by the government are robust and require financing, not least from the rapid development of the Norwegian Continental Shelf. At the same time, it might prove difficult to develop the Norwegian economic sectors other than oil and gas, including the development of the innovation, technology and knowledge-based sectors. Moreover, the government will need to address challenges related to the shift towards a low-carbon economy. The decision to close the Carbon Capture and Storage technology development centre in Mongstad necessitates seeking other ways to decrease the carbon intensity of the extractive sector. The way forward indicated by the government is the development of energy efficiency, with support for households and public sector investments, and renewable energy technologies. Social awareness for the changes is increasing, underlined by the rising support for the Green party and an increase in electric car sales (8.6% of registrations in September 2013).

Conclusions and Recommendations. Closer cooperation with the EU, and the enhanced competitiveness of Norway is beneficial for both parties, and can increase the significance of the European Economic Area. On European policy there is broad consent. However, energy policy poses challenges. The government needs to increase the share of energy supplies to the European market while maintaining good relations with Russia (which may be hindered by the change of pricing in European gas supply contracts), and keep momentum in the exploitation of hydrocarbons on the continental shelf while reducing the economy's dependence on oil and gas and developing pro-environmental policy.

Closer cooperation with the EU and its major players also creates the possibility of Polish cooperation with Norway. It is possible for the economy in key areas: energy (sustainable development in the extractive sector, PGNiG's and Lotos' activities on the Norwegian continental shelf, development of energy efficiency, and supplies to the EU), security (cooperation in NATO and with the European Defence Agency, and the exchange of best practices between Nordic Defence Cooperation and the Visegrad Group), and social policy (management of immigration, not only of Poles to Norway but also dialogue on migrants from Eastern Partnership countries, and neighbouring Russian regions).