

Facts 2003

The Norwegian petroleum sector

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Foreword

The petroleum sector is Norway's largest industry, and accounted for 19.2 per cent of gross domestic product in 2002. That corresponds to three times the value creation in any other industry. This sector also makes a big contribution to government revenues, yielding 24 per cent of the total in 2002. The oil and gas business directly and indirectly provides about 300 000 jobs nationwide.

Questions about how we can increase value creation from Norway's petroleum sector are virtually absent from public debate today. The focus is on how we should manage revenues from this industry.

Given the prospects represented by the Norwegian continental shelf (NCS) and the expertise concentrated in our petroleum business, oil and gas policy needs a completely different focus. It must be aggressive. The question must be how we can best exploit the resources which remain to be produced, and secure continued prosperity and industrial development for many years to come.

In its Report no 38 (2001-2002) to the Storting, the government described two futures for the NCS – the decline scenario and the long-term scenario. The first assumes that the petroleum industry and the authorities rest content with what has already been achieved. It involves stagnation for the NCS and the Norwegian oil and gas industry over the coming 10-20 years.

An alternative vision is offered by the long-term scenario, which puts oil and gas production on the NCS in a century-long perspective. Important requirements for achieving this scenario are that oil and gas prices remain at a reasonably high level and that the petroleum sector and the authorities make a commitment to cost-effective development of these re-

sources. The government's aim is that the long-term scenario will prevail, and the Storting has concurred with this objective.

Realising the long-term scenario will lay the basis for a Norwegian oil and gas business throughout the present century. Few other industries in Norway have such a long-term perspective.

However, achieving this scenario is likely to be very demanding. Among other requirements, the basis must be laid for recovering resources from the mature areas of the NCS. Many fields are in a phase of declining production and rising operating costs. This presents the companies with demanding challenges in cutting operating expenditures, extending the production life of fields and improving resource utilisation.

Improving the recovery factor on the NCS also offers a substantial value potential. I believe that raising the expected average oil recovery factor from today's 44 per cent to at least 50 per cent should be a goal for both government and industry.

Developing and applying new technology and organisational solutions represent another condition for achieving the long-term scenario. The oil and gas industry is a high-tech activity with a big demand for well-qualified workers. Ensuring that the sector is an attractive employer and succeeds in recruiting such personnel will be very important for the development of the NCS.

Petroleum activities also serve as a highly important prime mover for innovation and the development of technology and work processes in the rest of Norwegian industry. Close links exist between the oil and gas business and such sectors as information and communication technology, maritime industry, fi-

nance and other Norwegian energy industries. The indirect economic impact on both employment and production in land-based operations is thereby substantial.

The NCS is characterised today by big variations in maturity between its various regions. Through their exploration and licensing policy, the authorities must lay the basis for proving and developing time-critical resources in mature areas within the production life of existing installations.

This calls for predictability and an effective system of licence awards in these areas. To meet that challenge, the government has decided to designate a fixed, predefined exploration area within which annual awards will be made. An 18th licensing round is also due to be announced towards the end of 2003.

Deepwater areas of the Norwegian Sea are particularly interesting for new discoveries. More northerly waters off Lofoten and in the Barents Sea are also very interesting to the oil and gas industry. On the basis that more information is needed to assess continued petroleum activities in these areas, the government has initiated an impact assessment of year-round operations off Lofoten and in the Barents Sea. This study will be completed during the present year.

The impact of the industry on the environment and other users of the sea is also very important for its long-term development. More than 30 years of experience with petroleum operations have shown that these can be pursued within acceptable environmental limits.

Collaboration between the various regulatory agencies and the oil and gas sector has also shown that this activity can coexist with other industries. The government will pursue an aggressive environmental and resource management policy, based on a goal of a sustainable petroleum industry and coexistence between the oil and gas sector, other industries and the environment.

Nothing suggests that petroleum will lose its significance in meeting world energy requirements for the foreseeable future. The International Energy Agency estimates that global energy consumption will rise by roughly 50 per cent over the next 20 years. Growth is expected to be particularly substantial in the developing countries, where economic progress and combating poverty will demand a substantial expansion in energy consumption.

Norway produced three million barrels of oil per day in 2002, and was the world's third largest exporter of crude. The country accordingly plays a considerable role in securing access to the energy needed.

Maintaining substantial activity and dynamism in the Norwegian oil and gas industry will therefore be important for social development in general. This requires the NCS to remain an attractive area for investment, as well as a competitive Norwegian petroleum industry.



Erna Steingrimsdóttir

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