



# Norway in the geopolitics of energy

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## ABSTRACT

Petroleum production on the Norwegian Continental Shelf (NCS) has made Norway a player of strategic importance for the geopolitics of energy. Particularly significant is Norway's role for energy security in European markets for natural gas, actualized by Russia's war against Ukraine. While climate concerns, as a long-term security risk in the balance between economic growth and fossil fuel emissions, are shared by Norway with most others in the Western Hemisphere, the country's significance in the geopolitics of energy presents some challenges of its own. Albeit otherwise considered small state in international affairs, in energy it has significance for more than itself. In the country, the Norwegian state and energy companies make significant revenues, while at the same time, fluctuating and occasionally high domestic electricity prices affect households and non-energy businesses, negatively. The situation puts simultaneous pressure on domestic, foreign and security policy played out on a scale and scope not previously experienced. Important questions are to which extent and how geopolitical challenges and energy security may put the country in a sensitive or vulnerable position, and, alternatively, how they may strengthen it for more opportunities and room for economic, commercial, and political maneuvering.

## 1. Introduction

Petroleum production on the Norwegian Continental Shelf (NCS) has made Norway a player of strategic importance for the geopolitics of energy. Particularly significant is Norway's role for energy security in European markets for natural gas, actualized by Russia's war against Ukraine. While climate concerns, as a long-term security risk in the balance between economic growth and fossil fuel emissions, are shared by Norway with most others in the Western Hemisphere, the country's significance in the geopolitics of energy presents some challenges of its own. Albeit otherwise considered small state in international affairs, in energy it has significance for more than itself. In the country, the Norwegian state and energy companies make significant revenues, while at the same time, fluctuating and occasionally high domestic electricity prices affect households and non-energy businesses, negatively. The situation puts simultaneous pressure on domestic, foreign and security policy played out on a scale and scope not previously experienced. Important questions are to which extent and how geopolitical challenges and energy security may put the country in a sensitive or vulnerable position, and, alternatively, how they may strengthen it for more opportunities and room for economic, commercial, and political maneuvering.

For petroleum exporters, energy security has mostly been discussed in terms of how mismanagement of revenues may result in economic and

political instability. Most known are Dutch Disease problems (The Economist, 1978) and the resource curse (Auty, 1993). Norway has generally done well to avoid these problems, mostly by establishing a Petroleum Fund, coupled with careful use of petro-money in state budgets. However, the country's significance in energy markets, its geographic location, and open economy, present some challenges beyond macroeconomic concerns. A main aspect is the need for defense of installations and infrastructure, a formal political awareness that came as late as with the revised Norwegian Security Act shortly after the explosions of the Nordstream pipelines in September 2022 (Støre, 2022). It distinguished safety from security risk concerns (Hansen and Antonson, 2024), with safety as a company responsibility (under regulations of the government), while security is part of the nation's defence and must be dealt with by the state itself. The revision of the Security Act marked a change in Norway's external energy governance moving it from hitherto non-politicized and mostly commercial principles with the assumption of no or little market power, foreign or security policy implications, intentions, or couplings. Any role for Norway in the geopolitics of energy has earlier largely not been (publicly) expressed. However, beyond the acknowledged need for physical defense, Norway should also be aware of its need for economic and political security-of-demand in terms of prices, market access, and room for political maneuver, mirroring well-known energy importers' need for security-of-supply.

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Geopolitics is the study of how geography affects international relations, power, and vulnerabilities, in which Norwegian energy mainly plays a role in the European hemisphere. Its classical understanding emphasized that political and physical power over a geographic space (and often also historical and social situations) explained nation states' power and role in international affairs (Kjellén, 1905). Geopolitics was considered a competitive and largely zero-sum game in terms of gains and losses from geographic influence, trade, investment, and security relative to competitors, as a study of the evolving political structuration of space. Greater territory and more resources were the win for one and loss for the other. The control of a given territory was in the end often a question of "economic gain" created in, or transmitted from, a territory.<sup>1</sup> For more decades after WWII, borders and the established geopolitical structures were considered permanent sacrosanct, and territorial claims obsolete. The market became more-or-less the sole mechanism for allocation of economic resources, furthered by the break-up of the Soviet Union in 1991. Francis Fukuyama (1992) even declared the "End of History".<sup>2</sup>

However, as international economic and political integration deepened from the 1980s and beyond, a revised understanding of geopolitics emerged, still based on the importance of controlling a territory for power, political and economic outcomes. However, in the "modern" geopolitical view, the importance of a geographic space depends not only, or necessarily, on direct physical control, but (also) on factors, mechanisms, technological change, and institutions in the international economic and political system (Agnew and Corbridge, 1989). This parallels institutional economics' view on how institutions are important in shaping economic behavior and outcome (Veblen, 1898; Hamilton, 1919). In institutional economics market outcomes are results of complex interactions between various institutions, where institutions beyond themselves are understood also as individuals, businesses, states, social norms, laws etc. As opposed to neoclassical economics, it emphasizes that economics cannot be separated from the political and social system where it is embedded (Coase, 1998). Modern geopolitics became similarly concerned with the political discourse among international actors resulting from all factors that determine the importance of a country's geographic location and economic and political position. In the economically and politically integrated world evolving, geopolitical rivalry was no longer a zero-sum game, "*relative gains matter but so (also) joint gains from possible cooperation*" (Victor et al., 2006:5). Accordingly, geopolitical rivalry can well be a win-win, but the "rules of the game" matter for the distribution of benefits, where goals may be

<sup>1</sup> As part of geopolitics is geoeconomics and geostrategy. Geoeconomics describes and analyzes the distribution of resources in and between states, focusing on industrial capacity, technologic, scientific and administrative competence and capacity, finance and the flows of trade in space. Geostrategy has mostly been used as a military concept and describes plans for obtaining physical control of certain areas, or the capability to deny others to control them, irrespective of prevailing geopolitical and geoeconomic structures. Together they presuppose intentionality and are thus not natural phenomena.

<sup>2</sup> The role of energy in geopolitical understanding has been important since the industrial coal and steam revolution, as an economic backdrop for the build-up of the British Empire in the 1700s and 1800s. Halford Mackinder (1904) described much of the 19th and 20th centuries' geopolitical thought, great power strategies, alliances and military events based on geographic and historic factors. Because geopolitical thinking was used to defend Lebensraum for Nazi-Germany (Haushofer, 1924), social scientists and politicians largely abandoned the concept after WWII, claiming there was no geopolitical science anymore, only geoideologies, such as Nazism and fascism. One important goal for Nazi Germany's expansion eastwards in World War II was to gain control of oil production in Azerbaijan, albeit stopped at Stalingrad. The USA, from the 1900s, and especially after WWII, has been based on imported petroleum, largely from the Middle East, heavily influencing both U.S. as well as Arab foreign and security policy, the creations of the Organization of Petroleum Exporting Countries (OPEC) and the International Energy Agency (IEA), and more. With the shale "revolution" the role of the US in the geopolitics of energy is changing significantly.

reached more easily, and interests met, by interplaying with the system. Big states can to some extent also organize the system to advantages of their own (which small states cannot), perhaps with better results than with the explicit or implicit costs of taking physical control.<sup>3</sup> As geopolitics is often a geoeconomic phenomenon and vice versa, both disciplines of economics and political science (as a minimum) are necessary for comprehensive analyses, attempted combined in this article by multidisciplinary aggregation (Klein, 1990; Augsburg, 2005).<sup>4</sup>

The Norwegian geopolitical challenges as energy exporter can be understood in both its classical and modern understandings. The country's need for (immediate) physical protection and defense emanates from the classical geopolitical view, currently seemingly held by Russia with its emphasis on direct (territorial) control to promote interests.<sup>5</sup> However, Norway may in the longer term also be challenged in the modern understanding of geopolitics in its need for security-of-demand, mainly hold by players dominating the market (EU/EU-countries). This article provides, as an outset, some main empirical characteristics of Norwegian external governance of its role as, in general, a small state, while at the same time a major energy supplier. Thereafter, it outlines some basic notions useful for the understanding of how geopolitics may affect a country's energy security and governance. Core concepts of politicization and securitization of industries and markets are explained, including energy exporters' need for security-of-demand as a parallel to the more familiar concept of security-of-supply for importers. The concept of weaponization demonstrates how energy instrumentally can be used to project economic, political, or physical pressure on others. In the empirical parts following, the focus turns to main actors and factors framing Norway's role in the geopolitics of energy. First, energy giant Russia's external energy governance is discussed, having an impact on Norway's export markets in Europe (and globally), as well as being important as Norway's close neighbor in the High North. Elements of

<sup>3</sup> In this context, BRICS countries have long criticized the international (economic) system for being designed to serve Western (and specially US) interest too much, and for not being neutral to the equal benefit for all.

<sup>4</sup> Multidisciplinary, different from interdisciplinarity, represents a non-integrative mixture of disciplines where each retains their respective methodologies and assumptions, unaffected by changes and developments in the other disciplines. Two disciplines may partially study various aspects of an object. In the research, integration is achieved by using one discipline as contextual frame for the other, conclusions from one discipline as input factors for the other, and/or elaborate conclusions from one by the other. With a multidisciplinary relationship the cooperation between the disciplines ".may be mutual and cumulative but not interactive"(Augsburg, 2005:56). It is for example, to some extent, possible to translate the consequences of a political event to changes in economic variables, and vice versa. A change of regime in Russia can for example primarily be dealt with through political analysis, preferably of a realist type. The effects from the change on factors, such as production capacity, and strategies for its natural gas production and gas sales can be understood based on its consequences for petroleum policy. These effects can in their turn be dealt with from within the field of economics to study impacts on markets and prices. Interdisciplinarity on the other hand rather blends practices and assumptions of each discipline involved in a common core of concepts and methods. It attacks a subject from various angles and methods, eventually cutting across disciplines to form a new method of understanding. The extent to which it is possible to combine qualitatively different values and motivations between actors in a common core of concepts is not always clear. Interdisciplinarity is therefore usually a more demanding approach than multidisciplinary.

<sup>5</sup> Russia never followed the democratization processes taking place in Europe after the industrial and French revolutions in the 1800s. When the Tzar regime collapsed after WWI power was eventually left to the communist party as another authoritarian system. When the communist regime collapsed in 1991, Maria Snegovaya (2023) argues that "*authoritarian breakdowns do not bring about democratization but lead instead to a new authoritarian regime or state collapse and anarchy*", giving room first for (chaotic) Boris Yeltsin, and then (autocratic) Vladimir Putin, as presidents.

Russia's natural gas disputes with (another neighbor) Ukraine, and with the EU, provide some examples of how energy can be securitized and used as a weapon in antagonistic relationships. Second, the article focuses on EU energy policy and Norwegian room for political maneuvering as a near to full participant in the Single Market through the European Economic Area (EEA) Agreement. The EU frames, in both economic, regulative, and political terms, downstream energy markets for Norway, as well as its related domestic laws and regulations. Third, it highlights EU external energy governance, with a focus on how it, within a modern understanding of geopolitics, can use markets, regulations, and its economic power to promote economic or political objectives against a third party. Finally, in the conclusions, the article underlines the importance of understanding both classical and modern geopolitics for the identification of national position, security risks and bases for comprehensive policy formulation. It supports the idea of optimal – rather than maximal - free energy trade and market openings (liberalization) with societal safety and security concerns as secondary conditions. It argues that Norway, as a small state but big in energy, needs to balance the trilemma of security, affordability, and sustainability with the security implications the sector has for itself, as well as for others.

## 2. Norwegian external energy governance

In international affairs, Norway is with its small population and small economy, generally a small state. It is a market price-taker for most internationally traded goods, and a political rule-taker in most international relations with no power to force its will on others.<sup>6</sup> After WWII, its security position within the Western World has been much defined by its geographic closeness to the Russian Northern Fleet on the Kola peninsula. Since the 1970s, however, the petroleum sector has gradually added to its geopolitical importance. The politicization and securitization of energy have expanded since then, and in 2022 ultimately underlined and enhanced by Russia's invasion of Ukraine. As a major petroleum exporter, reinforced by the state as owner of the resulting and significant Sovereign Wealth Fund (SWF, state-owned investment fund),<sup>7</sup> and an offshore area in the North Atlantic seven times bigger than its mainland, the understanding of Norway as a small state may be modified. Small states share characteristics with each other as small, but they often also have some unique features, not shared with others, sometimes with significance in a larger context. For Norway, there may be reasons to believe that it's potential to influence international rules, as well as its ability to make flexible and autonomous national adaptations, are greater in the realm of energy and energy related policy than in most other areas. At the same time, there are also reasons to believe that it may be more directly affected as a result of the

<sup>6</sup> For a further discussion of general characteristics of small states, see for example Högenauer & Mišák (2024).

<sup>7</sup> There is a special tax in addition to ordinary corporate taxation of 22% on companies in both the Norwegian power and petroleum sectors, aiming for the state to collect the main share of their economic rents (profits in excess of normal profits). For power companies the base rate is 37% (a total of 59% of the companies' profit). For petroleum companies, the base rate tax is 56% (a total of 78% of the companies' profits). All petroleum taxes are transferred directly to the Petroleum Fund together with other state revenues from the sector. Most important other revenues are surplus from fully state owned Petoro, representing the State's Direct Financial Interests. In 2024 the value of the Fund was approaching 2.000 billion US Dollars, which means it is the world's biggest SWF ([www.swfinstitute.org](http://www.swfinstitute.org)). Policies responding to fluctuating petroleum prices are handled with the help of the Petroleum Fund, coupled with a three percent Fiscal Rule (*Handlingsregelen*) that makes state budgets independent of volatile year-by-year revenues from the activities themselves. Dependent on year-by-year prices, Norwegian petroleum represents some 50 % of total exports and some 30 % of government revenues. NFIN (2022) gives more information about the Norwegian Petroleum Fund, and facts and figures about its petroleum "model" can be found at [www.norskpeteroleum.no](http://www.norskpeteroleum.no).

importance it has for itself, as well as for other countries in this field.

Potential importance for oil and natural gas in Norway's foreign and security policy, were listed already in 1971, as number ten in what was later called the Ten Oil Commandments (Norwegian Parliament, 1971), and discussed more times later (e.g. Austvik, 1989; Kibsgaard et al., 2000). As compared to many other resource rich states, Norway has over time done well in terms of domestic petroleum developments, government revenues, and political control important to economic and political stability and growth, and hence also security, to "benefit the whole nation". When production started in the 1970s, firm state control of production and the industry demonstrated national sovereignty towards both consuming and producing nations. Norway wanted to independently control revenues, production, and management of what was a new and potentially economically and politically dominant industry. The room for maneuvering was used in full, with strong visions, awareness, and domestic consensus on goals to be reached. In external energy relations Norway chose not to be a member of the Organization of Petroleum Exporting Countries (OPEC) and was for a long time only associated with the International Energy Agency (IEA), as well as later being observer in the "gas-OPEC" (Euroenergie, 2008). The industrial model was an innovation itself, as compared to other petroleum nations, and not an imitation of other's practices in the industry, combining strong state control with market principles (Noreng, 1999; Austvik, 2012; Claes, 2018). The Norwegian petroleum "model" in-between complete nationalization (as in many OPEC countries at the time), and more-or-less free market principles (as in the USA), was unique, as an interplay between domestic and international factors, as well as between the Norwegian state, and national and international commercial companies. The country avoided both the resource curse and strong effects of the "Dutch disease", in contrast to many other petroleum exporting nations (Venezuela as the perhaps worst case), even if discussions of the long-term sustainability of its modified oil-revenue dependency are growing.<sup>8</sup>

While at home concerned with having a strong activist state management of the economy and industry, not having a foreign energy policy has been dominant towards the outside world. For example, in relation to the EU as the major buyer of natural gas and market regulator for both natural gas and electricity, it has over the past decade or so mainly followed EU principles of politization/regulation of markets in a mostly non-securitized commercial way. However, after the explosions in the Nordstream natural gas pipelines in the Baltic Sea in September 2022, Norway's natural gas infrastructure was named Europe's foremost terrorist target and resulted in a major rapid upgrade of preparedness on the NCS, as well as in society in general. Major companies operating (such as Equinor, Gassco, and others) were required to comply with certain provisions of the Norwegian Security Act, and key personnel in these companies to have security clearance. More EU and NATO countries now participate in regular surveillance and defense of North Sea installations in cooperation with Norwegian forces. The geopolitical change represented by the Nordstream damage, made full compliance with only commercial principles impossible to maintain, and a securitization of the sector was forced on policy.

Energy and geopolitical change also reinforce Norway's importance in the Arctic as part of, but also beyond, challenges connected to its closeness to the Kola military bases. The Arctic has large amounts of oil and gas (and other resources), important for Russian diversification of exporting routes as well as for its domestic market. Strong focus on climate change and a vulnerable environment coupled with new commercial possibilities attract increasingly more political and commercial attention from all over the world (Ciolan, 2022; Khorrami, 2024). The Yamal LNG plant, co-financed by China, already sends its cargos along

<sup>8</sup> However, there are claims that actors over the past years increasingly behave as rent seekers to capture support from a rich Norwegian state for activities that otherwise should not be supported (see for example Mogstad, 2024).

the Norwegian coast to Europe. Thawing of the ice may allow for year-round shipping through the Northeast Passage, expanded economic activities, and more trade between Asia and Europe, putting Russia in a core position (Stokke, 2011; Moe, 2013). This trade will pass through the Barents and Norwegian Seas, with the town of Kirkenes as a possible future commercial hub. As Russia's war against Ukraine seems to be pushing Russia and China closer together, the two countries' geopolitical competition with the West may be played out in part in the area. Long-term Russian - Chinese petro-industrial bilateral ties may be furthered. The Arctic may become a scene for superpower rivalries between the United States, Russia, and China, important to the EU, European nation states, and to transatlantic relations. It has potential to become a geopolitical and geostrategic hotspot in the emerging multipolar world, with energy as an accelerator, and Norway in its midst, with expanded own petroleum activities in the region.

In terms of threats emanating from climate change, Norway shares concerns with most other countries (NMCE, 2017, EU, 2023a).<sup>9</sup> Consequently, over time, and especially over the last decade, climate and environmental concerns have gradually contributed to moving Norwegian energy policy from mostly a sectoral policy under the Energy Ministry, and partly the Finance Ministry, to a broader perspective, including relations with the EU (see i.e. Cyndecka, 2020). This has led to less domestic consensus on energy policy, partly as realist vs. idealist domestic disputes involving Foreign Ministry, Climate Ministry, and others. Some of this is referred to as a "Climate Split" between a desire for economic growth and energy developments on the one hand, and nature, environment, and climate on the other (Boasson and Lahn, 2016; Korsnes et al., 2023). Attempting to balance the Split, Norwegian authorities argue that the country should remain a significant oil and gas exporter, while at the same time adapting to EU climate goals, policies and law. They argue that the continued use of (Norwegian) natural gas is important to reduce coal consumption in Europe, and thereby reduce climate emissions; that natural gas will be needed on a permanent basis to utilize existing, expensive natural gas infrastructure investments; that not all energy usage can be easily electrified; and that natural gas is needed to supplement intermittent energy from wind and sun. It also argues that Norwegian natural gas can be a significant source for producing (blue) hydrogen, coupled with Carbon Capture and Storage, CCS (NMPE, 2021).

Economic interests and the climate debate challenge the domestic prerequisites for defining consensus-based national goals and policies for meeting rapid and continuous exogenous geopolitical change, as compared to when the hydropower and petroleum industries, respectively, were built.<sup>10</sup> There are simultaneous requirements to both limit and increase petroleum production, to gain acceptable fuel prices, to get back low and stable domestic electricity prices, build or not-build more domestic green energy, and promote the green transition. The political divisions run within and across political parties, partly about modern vs. post-materialist values, and partly as a "Center-Periphery Split", as in many other countries. Uncertainties about technological changes in significant dimensions for the world to realistically achieve the goal of net zero emissions (IPCC, 2021; IEA, 2023b) remain, debatably, concerning the future of Norwegian petroleum production. From a resource and petro policy perspective, NCS exports may continue for many decades. This may also be the desire for the EU (see i.e. EU, 2024c). As modification, in the longer-term, significant yet unknown further reductions in the costs and spread of renewables and other competing

<sup>9</sup> Already in the Ten Oil Commandments of 1971 limiting natural gas flaring was mentioned.

<sup>10</sup> As the petroleum sector, the Norwegian power sector has also a long history of state governance. The "Panic Law" of 1906 and formally the Concession Acts of 1917 provided the legal basis for significant state and municipal control of hydropower resources, and a significant production capacity build-up took place up until the 1980s. Most large waterfalls are now developed, if not protected.

energy sources as backstops for oil and/or natural gas may shorten the petroleum era, perhaps in a net zero scenario, and, accordingly, change the geopolitics of energy more significantly, and Norway's role in it.

### 3. Politicization and securitization

The politicization and securitization of energy markets are often related to imperfect market structures, as defined in economics, when seller and/or buyer are to some degree locked-in with the other. The political or strategic aspects address problems and potential damage or costs caused by non-political accidents or shocks (safety), as well as deliberate commercial or political actions by a partner or an adversary (security). The problem can be unacceptable prices, manipulation or denial of market access, contractual terms combined with political horse-trading, counter-trade or other political requirements, sanctions, or in the most extreme cases, physical destruction of facilities and infrastructure, all seen in the Russian-Ukrainian and EU-Russian energy conflicts, respectively, over the past decades. The more imperfect the markets, and the more asymmetric the interdependence between sellers and buyers, the more politicized and polarized the behavior of the participants, whether political, regulatory, commercial, or strategic. Making it more complicated, as national and international policy making and businesses are intertwined, the state is not anymore the only actor that shapes political outcomes. Resources affect national politics by acting upon domestic actors, which in turn affect the domestic political system through associations, state structure and ideology and, hence, business-to-business and business-to-government relations. This links microeconomics to politics, and vice versa, explicitly underlining the need for multidisciplinary analyses of energy markets and the geopolitics of energy if interactive commercial and political behavior are to be properly understood.

The *politicization* of the energy industry and governance of markets is from the outset based on the need to repair naturally imperfect market structures, as well as for social, economic, and distributional concerns. First, a social first-best market situation without intervention, as defined in economics, may not be attainable in natural gas and electricity markets. Policy choices are often found among second- or third-best alternatives to address market inefficiency, resilience, and stability in any country. Interventions towards natural monopolies must be made concerning either privatization, regulation, or public ownership, which is a political, often path-dependent, and partly ideological, choice (Austvik, 2003:112–131). This concerns normal governance of ownership and day-to-day operations, including safety preparations for "normal" extraordinary events that may (will) take place from time to time. The risk of temporary supply shortages, blackouts caused by overloading energy transmission systems, natural catastrophes, and a lack of diversification of sources, must be addressed.

Second, while safety often refers to "the condition of being protected from injury to humans, assets or systems, to the extent deemed possible or acceptable in the tradeoff against other goals and values", security refers to "dangers and crises caused by people's deliberate, intentional, and malicious acts such as terrorism, sabotage, organized crime, or hacking" (Hansen and Antonsen, 2024; Jore, 2019). The national *securitization* of the Norwegian oil industry that came with the Security Act in 2022, relates to economic, political, or strategic conflicts, manipulation of markets, and strategic actions by an adversary. "Securitization in international relations and national politics is the process of state actors transforming subjects from regular political issues into matters of 'security': thus enabling extraordinary means to be used in the name of security" (Buzan et al., 1998:25).<sup>11</sup> The degree and nature of resulting economic, political, or physical damage of a crisis will be a function of the magnitude and duration of change, the ability to deal with it externally

<sup>11</sup> See Neal (2019) for a discussion of security in international relations theory. Wiesner (2021) discusses the ontological basis of politicization as a general social sciences concept. Chinn et al. (2020) outline the links between politicization and political polarization. Zürn (2019) provides a comparative discussion of politicization at national, European, and global levels.



and domestically, and how well-prepared, or flexible, the country is to adjust in line with economic, social, political, and strategic affairs, in the short and long-term, respectively. Accidents may happen, and antagonistic relations and conflicts will occur, from time to another, even though good relations for shorter or longer periods can reduce their scales and scopes. External processes can take place as negotiations, regulations, economic and trade policies, carrots, and sticks, aiming at improving own terms of trade, changing a counterpart's economic and other policy, or other political benefits or losses.

The IEA as an institution established for Western energy import security since the 1970s has focused on both crisis management and the long-term concerns of energy importers and consumers (IEA, 1995:17). First out was the oil market following the crises of the 1970s, and later also for security-of-natural-gas-supply, and eventually all forms of energy, with associated environmental and climate concerns. Like petroleum importers, petroleum exporters can lie somewhere in the continuum between *neutral*, *sensitive*, or *vulnerable* in their dependency on a market when price or market access changes (Keohane and Nye, 1977:12–18, Austvik, 2016:375). Sensitivity dependency for exporters will, when considered analogue to for importers, largely concern the risk of disruptions (volume and/or price) to existing markets, while vulnerability dependence will be concerned with issues more linked to investments and long-term developments. As for importers, an exporter's vulnerability dependence can differ significantly from its sensitivity dependence, and potentially be much more costly. Making a market more competitive is a means to reduce sensitive and/or vulnerable dependency to more neutral, so that an exporter always has an alternative to sell to if one of the customers disappears, ideally as in perfectly contestable markets. However, the price risk, and dependence on world events, may persist and even increase in a free market even if access to the market is unhindered. An exogenous shock caused, for example, by a distant war disrupting supplies in a globalized market may dramatically change prices, also in physically "secure" markets. This was very much the situation following the two oil shocks in the 1970s, and in the natural gas crises in 2021–23, to the detriment and economic loss of consumers/importers and the benefit of producers/exporters. The dramatic drop in oil prices in 2014 showed the opposite, i.e. how exporters lost to the benefit of importers, while the physical trade was unhindered.

The crises of 2021–23, as in the 1970s and 1980s, underline that energy may not be treated as "just another commodity" in markets or in international affairs, with market contestability as the only (or at least dominant) prerequisite, for its design. As a secondary condition to maintain markets competitive, the EU Single Market should develop socially optimal structures with respect also to malicious and accidental threats (EU, 2024b). Rather than maximal free trade as a goal, energy markets should be designed in an optimal manner. Countries should take full advantage of trade with others, but as a secondary condition, have concerns for internal and external economic, political, social, and strategic concerns that follow, considered as negative externalities. Exchange of energy as a strategic good has an added cost in the form of an externality not reflected in the marketplace, besides externalities in the form of carbon emissions, and other. Accordingly, optimal market regulation includes "derisking" of, but not "decoupling" from, national or international trade.

The derisking can be resolved through commercial relations, foreign and security policy, or market reorganization. However, if external measures are not possible or not successful, they must be addressed by domestic measures. A country should be as elastic (flexible) as possible in its domestic response, whether the shock is natural, political, or strategic. As a preventive measure against supply disruptions and price shocks, strategic stock storage (natural gas, oil, hydro reservoirs, and others) is a tool as part of the preparedness to mitigate a crisis, just as the Strategic Petroleum Reserves (SPRs) are

for oil.<sup>12</sup> Strategic energy storage, unlike commercial storage, is politically controlled. A superior authority (the state) must assess how large the stock must be, and how the withdrawal must be carried out. In the EU, work is being done to build Strategic Natural Gas Reserves (SGRs) (Austvik, 2003:194–206), actualized by the 2021–23 energy crisis.<sup>13</sup> Beyond strategic stocks, measures for energy consuming countries to prevent and mitigate sensitivity effects from exogenous shocks and the politicization and securitization of energy, include improved transmission capacities and flexibilities, energy savings, local energy communities (IRA, 2022; EU, 2023b; IEA, 2023a), more renewables, perhaps a renaissance for nuclear power, long-term agreements for base-load supplies between sellers and buyers, and price stabilization measures. To mitigate long-term vulnerabilities, consumers/importers should diversify types of energies, connections, and sources, while a petroleum producer/exporter like Norway, should diversify its economy.

#### 4. Weaponization

Albeit small-state Norway might not easily project economic pressure on others, or *weaponize* its energy sales, pressure can be put forward to hurt Norway in a conflict, and/or on others depending on Norwegian energy sources. Weaponization of energy can be performed in more ways, as shown by both Russia, Ukraine, the EU, and the US over the past years, with the aim of political change, or to weaken an adversary's economic, social, or strategic capacities.<sup>14</sup> How much pressure that successfully can be projected on others is largely determined by dependence on and importance of energy in the targeted country, the scale and scope of market imperfections, and degree of asymmetry in the relationship. "Asymmetric network structures create the potential for 'weaponized interdependence', in which some states are able to leverage interdependent relations to coerce others" (Farrell and Newman, 2019). The ways to weaponize energy are often divided into four main categories: three economics in the form of sanctions on trade executed by the importer targeted on the exporter, or vice versa (Austvik, 2003:177–179), and one physical.

- *Tactical linkage* is a systematic combination of economic and political/military elements aimed at influencing the specific policies of the targeted country, rather than weakening its military capability through a weakening of the economy. Energy trade can be adjusted according to how content one is with the policy of the opponent.
- In a *strategic embargo* the concern of the sanctioning country is to strike goods that can be of direct military use. The prohibition of contraband in wartime is an example of a strategic embargo. During a strategic embargo, export of goods that reduce economic bottlenecks in the targeted country is allowed for as long as it does not affect military ones. Energy may be of such strategic importance.<sup>15</sup>
- *Economic warfare* implies, in brief, weakening another country's military potential by hurting its economic and social structures.

<sup>12</sup> IEA measures to mitigate an oil crisis have largely been a mixture of co-ordinated national consumption reductions and use of SPRs, while such strategies have not yet been established for other energy sources. IEA recommendations for long-term supply security are mainly diversification of types and sources of energy. Over the past years much attention has for this purpose been paid to renewable energy and energy savings.

<sup>13</sup> The optimal size of storage to be a good backup in a shock depends on the likelihood of it happening, the problems it might create, and its expected intensity and duration.

<sup>14</sup> While weaponization as a measure aim at a political change in the targeted country, a trade war rather aims at changes its economic and trade policy.

<sup>15</sup> Limitation of technology exports under the Consultation Group Coordinating Committee in COCOM (1949–1994) during the Cold War is mostly considered part of a strategic embargo. (Austvik, 2003:179–180, US Department of State, International Information Programs, 2002).

Sanctions are costly for both sides, irrespective of who introduces them. From the outset, parties enter a trade relation because both benefits. Pressure is most easily (or least expensively) projected by the party that is less dependent on the more dependent, to gain an expected net political gain, higher value than the economic loss from a reduction of trade. In the targeted country, being the exporter or the importer, the costs of sanctions should be high, and preferably made impossible for it to reach other markets. In the sanctioning country, individuals, businessmen, and others who must endure the burden of the economic loss must be willing, or be forced, to do so (not selling or not buying, respectively).

However, while sanctions in general hurt the targeted country's economy, they have more rarely been shown to achieve the goal of changing the country's policies. Economic pressures are often not precise enough to achieve the desired goals (ref i.e. Pala, 2021). Often, they can be diplomatic noise, partly to satisfy domestic opinion that wants some form of action towards an adversary, when diplomatic means have been exhausted, and acts of war are out of the question. Most importantly, it has not always been easy to predict the adversary's reaction. It may be milder, but can also become harder, and rather strengthen its regime. By establishing an "external enemy" the domestic situation can be solidified and help integration at home, to establish cohesion and alliances with other social groups (Cosser, 1957). The situation can also escalate through countersanctions in a reciprocal "sanctions war".

Beyond economic means, ultimately, parties can be brought into an armed conflict, where energy is weaponized not only as an economic means to exert pressure for the adversary's political change, but also as direct strategic or military targets, bringing us to the physical and toughest category of weaponization.

- *Destruction of energy facilities and infrastructure*, or making them dysfunctional, by warfare, sabotage, cyber-attacks, or other means as part of a battlefield.

The energy system is essential for the functioning of all modern societies. Destroying or weakening it will undermine a country's energy security and economic, social, and strategic abilities. Consequently, as response to Russian attacks, Ukraine has "strengthened its air defence systems and invested in passive defence measures such as engineering fortifications to further protect energy infrastructure" (IEA, International Energy Agency, 2024a), supported by the EU and the IEA (IEA International Energy Agency, 2024b). The electricity system is particularly important, but all energy infrastructure, from power plants to oil refineries and district heating facilities, can be securitized, to be defended, in the same way as military objects.

Accordingly, when weaponized, energy can be used as an economic weapon for political change, as well as itself be a physical military target, underlining the mixed understanding of the term "geostrategy". In the current politically and economically integrated world, geostrategic understanding should arguably be understood to include the defense or promotion of both economic, political, and physical security interests in a total defense, and not only the military part. Total defense includes every aspect of society that contributes to collective security within and outside the defense sector, including military, civil, economic, social, digital, and psychological dimensions (NMD, 2023). "In short total defence is about everyone playing a part in the defence" (scdf.gov.sg) and encompasses mutual support and cooperation between armed forces "across the entire crisis spectrum - from peace via security policy crisis to armed conflict" (NMD, 2018). It may include the regulation of private or privatized firms and organizations, infrastructure, and digitalization, cyber threats, and Europeanization and globalization of supply chains (Rongved and Norheim-Martinsen 2022:13–19). On a scale from no conflict at all to total war, there is a continuum of more-or-less conflictual situations, influenced by soft and hard economic and political events and actions, to be considered in a geostrategy for total

defense, of which energy is part.<sup>16</sup> This again underlines the needs of a multidisciplinary, multi-levered, and holistic governance approach "at the intersection between safety and security professionals, and the assessment of the security side will most likely include geopolitical concerns" (Hansen and Antonsen, 2024).

## 5. Geopolitics and Russian external energy governance

Russia as a global energy actor is important for the economic, regulative, and political development of Norway's export markets in Europe, i. e. EU energy situation and policies. Norway and Russia partly share exporters' interests in terms of downstream prices and market organization, while at the same time being competitors, as demonstrated when Norwegian gas compensated for some of the Russian export reductions connected to the Ukrainian war. How Russia governs its external energy relations are important both for understanding Russia itself (Mitrova, 2022), as well as being examples for how energy can be securitized and weaponized in real conflicts as means to reach goals, important to Norway's commercial, political, and security strategies. The energy weapons Russia uses, and the effects they have on markets and commercial and political actors, are part of forming Norway's geopolitical surroundings. Russia is also Norway's border-neighbor in the High North, where the two are on opposite sides in the larger East-West conflict. Russia's seemingly classic conflictual geopolitical thinking, as it was historically in the Soviet Union, and in line with how Lebensraum was defined for Nazi Germany, has been demonstrated since it returned to the international arena as a more aggressive power in 2007.

Quite different from Norway, as a geopolitical actor and part of European big politics, Russia has a chance, and not least a desire, to become equal to EU and the United States in its ability to influence bilateral relations and international affairs, and to challenge through conflict. For most, a conflict usually has negative connotations, and most policies aim at preventing it, claiming that parties should follow existing agreements, rules, and regulations. However, when there is a substantial clash of interests, driven by a sense of grievance, and linked to scarcity, inequality, or cultural or moral differences, or the distribution of power, a party can regard conflict as useful (Kriesberg, 2003). "Conflict reveals deep-seated problems and encourages people to find a resolution. It provides possible new ideas, gives the opportunity to verbalize demands, encourages to set limits and leads to solutions in case of success" (Andakulova, 2021). Usually, an open conflict is part of a larger political crisis in a worsened relationship, where one or both sides deem it beneficial to hurt the other, or to press for economic, social, political, or strategic change. For example, the Eastward expansions of EU and NATO since 2000 viewed in the West as a desire from each individual nation state in the East to move politically Westwards, may by Russia be considered a deliberately Western offensive at the expense of Russia. The Russian invasion of Ukraine, as argued, has the intentional potential to make irrevocably discrete changes in its relations with both Ukraine and the West. Without a clash, behavior and relationships stay the same, even if they are not considered fair and productive. In this view, albeit meeting strong reactions and counterforce from both Ukraine and a united West, the conflict could in the Russian view have the potential to achieve concrete objectives, and for rules and geopolitics to be changed.

The Russian interdependence with European natural gas markets was based on an infrastructure built mostly from Western Siberia to Eastern Europe in the 1970s, and to Western Europe in the 1980s. Natural gas production, infrastructure, and consumption patterns were built up when Ukraine was part of the Soviet Union. The most important transit corridors were built through Ukraine. Ukraine and Russia have been mutually dependent in their need for security-of-supply, security-of-demand, and security-of-transit, respectively. It made Russia

<sup>16</sup> Engen et al., 2021:77 provides a classification of risk according to assessment criteria and risk description.

vulnerable to Ukrainian events and actions, while Ukraine's one-sided dependency on natural gas imports from Russia made it vulnerable to Russian power of most kinds. Following Ukraine's independence in 1991 and before the invasion in 2022, continuous conflicts have run in contract negotiations, transport tariff discussions, court cases and arbitrage processes, accusations of tapping pipelines, horse-trading pressures and more (Austvik and Lembo, 2017, Bukhari et al., 2024). As an example, as part of the Kharkov Agreement in 2010, Ukraine had to either pay a high price for natural gas, or to give political concessions to gain a low price. The resulting reduced price was intended to make relations between the two countries more friendly, including that Russia could use the Sevastopol naval base on Crimea until 2035 (Kremlin.ru, 2010).

On several occasions, Russia appeared to consider the situation problematic for their security-of-demand and security-of-transit. On building the South Stream/TurkStream pipeline across the Black Sea, and the Nord Stream pipelines across the Baltic Sea, ways of circumventing Ukraine were created. The invasion came shortly after Nordstream 2 should have opened in 2021, which would have sharply reduced Ukrainian importance for Russian security-of-transit to the EU. To further diversify purchasers and improve its security-of-demand, Russia also turned its eyes eastwards to Asia/China, which are now the biggest customers for Russian energy (Downs, 2023). The combined Russian European-Asian natural gas strategy moved the country from being rather vulnerable, towards closer to sensitive, in its dependence on single markets in general, and on European natural gas markets, when the war started. For the EU, the dominance of Ukraine as transit country was problematic for its security-of-natural-gas supply and -transit. Nordstream and Turkstream positively diversified the physical supply routes for single EU countries as purchasers, even if Gazprom as monopolistic Russian exporter remained the same.<sup>17</sup>

When major parts of piped Russian natural gas were stopped, this hurt both EU and Russia. Russia turned to Asian export markets, and the EU intensified work on energy savings, the green transition, and obtained alternative supplies mainly in the form of LNG.<sup>18</sup> The conflict increased Norway's energy geopolitical importance as the main alternative source of natural gas supply, and at record speed, EU countries installed temporary LNG receiving terminals to make up for most of the Russian shortfall (mostly American LNG). Accordingly, both Russia and the EU proved to be sensitive, rather than vulnerable, to the loss of their mutual natural gas trade (see i.e. Sun et al., 2024). The simultaneous abilities to adjust to a new situation also modified Norway's importance for European energy security.<sup>19</sup>

<sup>17</sup> Olga Khrushcheva (2012) discusses the dominance of Gazprom, and the lack of foreign investments, in Russia's energy sector.

<sup>18</sup> The globalization of LNG trade has made it possible for the US to become the world's largest natural gas exporter within a short time. LNG trade has also globalized the pricing mechanism for European natural gas (= Norwegian export prices), which now largely depends on global supply and demand balances. Consequently, during the European energy crisis in 2021–23, the high natural gas prices were first caused by tight global markets in 2021, post-pandemic growth, and increased energy demand in Asia/China, and not foremost in Europe. The crisis was exacerbated by the reduction of Russian exports to the EU after the invasion in 2022, and thereafter again modified by increased supply of LNG in 2023, with resulting lower natural gas prices in Europe and elsewhere. The globalization process continues. The IEA (2023c) estimates that global LNG supply will increase by almost 50 percent by 2026–30, with the USA and Qatar as the countries with the biggest increases. At record speed the USA has largely replaced Russia in EU markets and has consequently also become Norway's largest natural gas competitor.

<sup>19</sup> As more LNG coming to the global market, and over time Russia may come more strongly back into European markets, EU-Norwegian energy-interdependence may become more asymmetric, to the benefit of the EU and to the disadvantage of Norway's current advantageous security-of-demand position. From this point of view, if Norwegian natural gas exports were to be expanded, diversification of supply routes and more LNG capacity should make exports more flexible, rather than more sunk cost pipeline expansions.

## 6. EU, Norway, and the EEA agreement

In its strong energy interdependence with the EU, the EEA Agreement from 1994 is the most important legal framework for Norway's room for political maneuvering in the field of energy. A question is how much room for maneuvering Norway has, when, if wanted, promoting nationally defined policy in the field of energy, being geopolitically motivated or other. The EU is the rule-maker, and Norway as an EFTA country is the rule-taker (with no vote). The agreement brought Norway into the EU Single (internal) Market for all trade, in the same way as member states, except for agriculture and fisheries. The normative ideal for the internal market is largely based on microeconomic theory for contestable markets and their regulations, with respect to externalities, monopolization, and social or political concerns, as the main model for *internal* EU energy governance.

- A *perfectly liberalized (competitive) market*. Competition should be enhanced on a non-discriminatory basis, and regulations are introduced when needed. For natural gas and electricity, EU should secure that “infrastructure hardware” is in place and that “regulatory ‘software’” (Goldthau and Sitter, 2018) works according to microeconomic ideals (maximizing total social surplus).

EU regulation aims at bringing the energy sector in line with how other “normal” markets are designed, in a non-political and non-securitized way, disregarding geopolitical concerns, making competition law and non-discriminatory principles essential. They are addressed most importantly so far in four energy packages 1998–2018 (EU, 2024a). As a seller of petroleum to, or having activities in, countries outside the EU, Norway is not part of EU trade union with common external customs tariffs, nor the Common Foreign and Security Policy (CFSP), *per se*. The EU should not have much formally to say on Norwegian relations to organizations such as OPEC and the IEA, or to countries like Russia, the USA, China or other, albeit Norwegian authorities voluntarily have followed the EU, in for example, sanctions against Russia. However, when trading with EU countries, Norway should adhere to EU competition law and regulations. For example, in 2001/2002, Norway was eventually forced to follow the first gas directive and introduce Third Party Access (TPA) in natural gas pipelines on the NCS, and to abolish it's at the time joint natural gas sales (Austvik, 2003:232–237).<sup>20</sup> Later, the country has sought to follow EU principles for domestic and EU-wide energy trade and industrial organization, besides in its climate policy, in much the same way as a Member State. What happens when interests collide, and Norway does not share EU view in how energy markets and industry should be arranged? The experiences are mixed.

First, in 2002, the European Surveillance Authority (ESA) argued that the Norwegian Concession Act of 1917 and its establishment of the Reversion Institute (Norwegian: *Hjemfallsinstitutter*) violated Articles 31 and 40 of the EEA Agreement, as only Norwegian state institutions could receive a perpetual license.<sup>21</sup> In 2006–07, there was a settlement on the Right of Return whereby EU “principles of equality” were claimed to dictate that private owners should have perpetual ownership of power plants, equivalent to public owners. Norway refused to change the arrangement, and the case went all the way to the EFTA court. In 2007, the court ruled that the difference in regulation between public and private owners of hydroelectric power was an indirect discriminatory restriction of EEA rules. Thus, Norway basically lost the case and the conflict. However, the problem that the EFTA Court had dealt with was

<sup>20</sup> Monopolized in the Gas Negotiation Committee. Norwegian: *Gassforhandlingsutvalget*, GFU.

<sup>21</sup> The Reversion Institute means that waterfalls and associated power facilities belong to the state free of charge after the end of the concession period, usually 60 years.



not the Reversion Institute and state ownership as such, but that the system of public ownership was not uniform for public and private actors in the same market, and thus consistent enough to justify restrictions (Norwegian Parliament, 2008). Consequently, the Norwegian government made all (major) hydropower production public, so there were no longer any private owners who could be alleged to be discriminated against. The regulations came into line with EU principles of non-discrimination, whether public or private, or from different countries (Austvik and Claes, 2011).<sup>22</sup> A “Consolidation Model” was created, enhancing public ownership compared to previous schemes. In the new model, private companies were not to be granted new independent concessions at all (with exception of small power plants), and the hydropower resources that were still under private ownership were to be transferred to public ownership, in line with the Reversion Institute. The Reversion Institute was not removed: instead, state public ownership and control were increased through compensatory policy of the Norwegian state.

Second, another example indicates a perception of a more limited room to maneuver, or willingness to use it, towards the current domestic energy situation. Already the Energy Act of 1990, Norway liberalized its electricity market, albeit with continued strong public ownership and control. It first created a national power market, which later in the 1990s became Nordic (Magnus, 1997; Bye and Hope, 2005). It was, interestingly, a forerunner to EU electricity and natural gas market liberalization in the late 1990s. However, only in 2021 sufficient transmission capacity to the Continent and the UK were completed so electricity prices could converge with EU (North European) prices.<sup>23</sup> Prices started to increase in 2021, reinforced by Russian short-cuts after the invasion in 2022. Power companies and the state made a lot of money, but households and non-energy producing industries lost out, albeit somewhat mitigated by a government subsidy scheme. Transmission cables and the debate about EU’s coordinating body for national energy regulators (Agency for the Cooperation of Energy Regulators, ACER) and disputes over a national vs. Europeanized market for electricity have received a lot of domestic Norwegian attention. Fluctuating prices, linked to European and global natural gas prices, have short term and hour-by-hour volatility due to market design and trade on the stock exchange, which negatively affect Norwegian consumers and non-energy industries, and their energy preparedness.<sup>24,25</sup> With electricity prices equalizing with other countries, Norwegian industries also lose an important backdrop for their long-time comparative advantage. A question rapidly evolved as to whether power producers should optimize the value of their water sources to maximize profits, as for “normal” trade in other goods. Or alternatively that electricity should rather be regulated more like grid-connected services, such as water, sewerage, and roads, *inter alia* as part of the country’s total security as cold and sparsely populated. The government has chosen to maintain the market freely integrated with the EU, partly defending it as a good

model. If on the other hand should choose to explicitly modify risks for supply shortfalls and take control of price level and volatility, possible measures could be a) publicly regulated stocks in terms of water reservoir filling to secure physical supply of electricity, and b) as raw material exporting countries sometimes do, introduce a (temporary) export tax to dampen effects of fluctuating, often high, international prices.<sup>26</sup>

Would measures break with the EEA Agreement if conflict of interest prevail? Can a rule-taker be a policymaker? Obviously the passive nature of the EEA Agreement minimizes small state Norway’s formal influence on EU policy as compared to other small Single Market participants. Beyond lobbying, Norway has little influence over the EU, due to both its non-membership and small-state status. Most important of EU rules for Norway is not to break with the non-discriminatory competition principles in the EEA Agreement, which resemble the situation of full member states. However, legal ambiguity opens for interpretations on both sides. “*The complexity of the petroleum sector implies that when a judicial review of whether a measure is necessary to take care of the concerns in which it is anchored, doubtfully will be very intense.*” The “*ESA will most doubtfully be able to deal with other than striking violation of rules*” (Arnesen, 1995:662, author translation). First, the formal binding is different in an EU directive and in a regulation. Even a given text in a regulation must be translated, interpreted, and implemented. Second, the EU often has acceptance of differentiated adaptations and integration in individual countries, given that non-discriminatory principles are respected.<sup>27</sup> Realist-liberalist Joseph Nye (2015:3–14) argues that states should benefit from a liberal international trade system, but also protect themselves against other states, forces, and preferences, and as far as possible under the order that persists. Diana Panke (2012) argues that “*small states tend most likely to punch above their weight ... If they are selective in negotiations and concentrate their capacities on the most important issues*”. Michael Posner (1961) identified countries and industries as respectively innovative and imitative when they experienced exogenous change in supranational governance, whether technological, commercial, or political. When a country, through integration into international politics and markets, loses autonomy, according to Posner, the reaction can take different forms: the reaction can be passive, defensive, aggressive, exploitative, constructive, interactive, innovative, or imitative.

The character of EEA Agreement generally places Norway close to the passive category discussed by Posner. However, an active and insightful relationship with the EU can be just as important, and

<sup>22</sup> As quoted from Jimmy Dean: “I can’t change the direction of the wind, but I can adjust my sails to always reach my destination.”

<sup>23</sup> Since much power production in the EU is based on natural gas, Norwegian electricity prices are now largely linked to the price of gas. Increase in global gas prices resulted in high prices for both gas and electricity throughout Europe already in 2021 (before the invasion of Ukraine), including in Norway, resulting from strong economic growth in Asia/China after Covid19.

<sup>24</sup> A special aspect in relation to EU climate policy is Norway’s hydropower capacity that, debatably, is sometimes referred to as Northern Europe’s green battery. Hydropower can be stored in reservoirs and easily tapped on/off according to prices and needs, which renewable sources such as wind and solar energy cannot.

<sup>25</sup> The market design itself has also been considered problematic for the EU, as outlined by European Commission President Ursula von der Leyen in her State of the Union speech: “The current electricity market design – based on merit order – is not doing justice to consumers anymore” (quoted by CEE Energy News 14.9.2023). In more detail this is followed up in EU 2024c.

<sup>26</sup> An export tariff can have several goals: lower the price in the domestic market (and thereby also contribute to lower inflation), increase the degree of self-sufficiency, or give the state increased income. Because they are rarely used, export tariffs are usually given little or no attention on economics courses in international trade theory and policy. Furthermore, export duties are prohibited in the EEA Agreement (Article 10 - TEUV Articles 28 and 30). On the other side, an export duty from a country that is small in the market does not change the international price and is to the direct disadvantage of domestic producers and not to the discrimination of foreign energy companies, to the benefit of domestic households and industries, and the state (which gets the revenues from the tariff). Export tariffs on electricity, as an example, are not necessarily in conflict with the purpose of the EEA Agreement, as it is not a discriminatory and competition-distorting measure in favor of domestic actors at the expense of foreign ones, as import duties are. A (temporary) fee would be paid by Norwegian energy producers, in practice mainly as a direct taxation of their profits. For example, China has occasionally imposed export tariffs on grain products, when high international prices prompted many producers to sell the goods abroad rather than in the domestic market. In 2023, Mexico introduced an export duty for some types of grain for use, e.g. in tortillas. India introduced tariffs on iron ore in 2022, with the purpose of reducing the prices for Indian ironworks supplying the automotive and other industries considered important for the economy and its exports. Russia has long had an export tax on crude oil, oil products and natural gas.

<sup>27</sup> See e.g. Gstöhl (2015), Fossum (2015), Schimmelfenning et al., (2015), Trondal et al., (2017).



sometimes more important, than the exact formal affiliation. The Reversion case showed that political solutions depend on will and what appears to be a reasonable and practical organization, and then finding the political, regulatory, and legal way out. It is rather a question of vision and ambition. Norway should have room for maneuvering to take steps considered necessary in the electricity market if argued against security and geopolitical risks, cold climate, widely spread population, path-dependent based heating based on electricity, and/or measures used as transitional arrangements, if desired. Beyond the logic itself, the role as noticeable energy exporter, with the state as regulator and majority owner of much of the energy industry, and potentially also a future mineral exporter, adds to a perception that Norway in the context of energy will be listened to as neither a small state nor that the state institution *per se* in the context is small. Norway's ambitions to influence international conditions and other states must be realistic. Small margins can nevertheless be of significant economic and political value.

## 7. EU external energy governance

The EU is close to totally dependent on imports of both oil and natural gas, as opposed to the USA, where the shale revolution in only a few years' time has made it the world's biggest oil producer, and the world's largest exporter of natural gas. In energy relations, the USA and EU are now in significantly different situations when compared to during the oil crises 50 years ago. This partly explains EU's strong emphasis on the green shift, and to reduce imports of fossil fuels. At the same time, the green shift adds new dimensions to the geopolitics of energy. To produce energy from wind, sunshine, and other sources, substantial amounts of minerals like lithium, cobalt, copper, and nickel are needed. Much of them are currently located in countries like China, Russia and Congo (IEA, 2023c). Significant resources are expected also to be found in Norwegian offshore territory (NME, 2024), with the potential of positioning the country also in the geopolitics of renewable energy. The EU appears largely to remain at the importer side in either case.

Despite the strong dependence on energy imports, the external dimensions of EU energy security have fallen short of being part of its CFSP. Even though energy gained importance during the 2000s, deepening cooperation was often rejected by member states (Youngs, 2009:4). When countries negotiate "tariffs, investments, rules of access etc., they are doing EU external energy policy, but they do it on a national basis." (Glachant, 2015). The Energy Union proposal by Central and Eastern European Countries (CEEC), and discussions within the EU in 2014 and 2016, showed a conflict of interests between Western and Eastern European priorities in terms of security-of-energy-supply. Many countries in the CEEC had long considered the one-sided dependency on Russian natural gas to be a security problem that they put on top of their political agendas, as an important element in their relations with Russia, arguing for its securitization, and an optimization, rather than maximalization, of free market principles. However, in Western Europe, "energy policy has been focused on the completion of the Single Market (SM) and climate change, rather than on energy security and its foreign policy dimensions" (Austvik, 2016:373). EU geopolitical and bilateral interests in its relations with external energy suppliers have not been addressed in the Energy Packages and in the final design of the Energy Union. EU has seen Russian natural gas policy rather as a market failure, as defined in economics. EU challenges interventionist policies in producing nations, just as it did with Norway when it dismantled its gas sales monopoly in 2001/2002. Consequently, conflicts between Gazprom and the EU have largely remained a discussion of the extension of internal EU rules (which Norway largely adopted to), and not as a strategic partnership. The EU's main approach for external energy governance can be described as.

- *Liberalized market principles extended to external suppliers.* EU wants its rules and regulations to be extended to, or forced on, exporters such as Norway, Russia, and transit countries as it sees fit for its

socioeconomic interests, i.e. the consumer and importer.<sup>28</sup> The message from the EU is: "Take it or leave it" if you want to operate downstream in EU markets, making foreign producing and transit companies and governments subject to the *acquis communautaire*.

Transferring EU rules to exporters tends to shift the balance between purchasers and an (external) often nationally controlled industrial seller. Russian energy policy, with its long tradition of strong state control, conflicts with the liberal EU, in terms of both for whom policy should work and how it should be performed. Examples are the antitrust case that the European Commission initiated against Gazprom, and the response case filed by Russia before the dispute settlement panel in the WTO in 2015/16 (Austvik and Lembo, 2017). Both sides pursued legal cases against the other to make or prevent, respectively, Russia moving towards a Western-styled natural gas policy, including selling natural gas spot rather than through Long Term Contracts (LTCs), and with permitted resale of natural gas to third parties. The attempt to make Russia comply with the Energy Charter Treaty (ECT) is another example for much the same purpose ([www.energycharter.org](http://www.energycharter.org)).

Hypothetically, as a parallel to Norway's sometimes active adjustments to EU rules and regulations, if Russia were to *de jure* accept EU types of law in its energy sector, it might not necessarily *de facto* change its main policy goals and become a mirror of how the West regulates its own economy and society in its simplest, "non-politicized" regulatory form. It could, in some way or another, maintain a centralized governance structure (as Norway mainly did), adjusted to the Russian situation, representing a pragmatic change that could also benefit Russian society and state (Austvik and Tsygankova, 2004). On the EU side, as an alternative to a one-sided requirement whereby the EU is exporting its legal framework and ways of doing things unilaterally, it could address the demands of the other, acting on a case-by-case basis and finding common ground for bilateral agreements. However, and rather, when the extension of own rules to an exporter does not work, the EU shifts to a more realistic hard power type policy (Goldthau and Sitter, 2019).

- *Mercantilist trade power.* EU can use its significant position in trade and economic affairs, with aims and intentions for its own interests targeted at a specific actor or issue. In trade policy theory, a large country can benefit from using tariffs or other (substitute) protectionist measures (such as various forms of regulations or market reorganization in line with what is discussed in the field of Institutional Economics) against a dependent exporting company or country.

For example, former EU President Donald Tusk's initial design of the energy union in 2014, although not implemented, suggested that the EU should establish a buyer's monopoly purchaser (a monopsony) of Russian gas to lower import prices, establish price ceilings for gas and oil from Russia, and ditto sanctions, for re-regulation of gas and electricity markets, and construction of gas storage facilities. The proposal addressed several critical issues that markets do not solve themselves and that were therefore argued for as requiring political attention, addressed by interventionist and regulatory market means (Austvik, 2016:376–378). In the "Energy Platform" of 2022 the ideas came back in force, as EU aimed at playing "a key role in pooling demand, coordinating infrastructure use, negotiating with international partners and preparing for joint gas and hydrogen purchases" (EU, 2022). The goal was to diversify energy supply and increase its strategic resilience, supposedly first and foremost against Russian gas imports. The report led by Mario Draghi "The future of European competitiveness" (EU, 2024c) argues for joint purchasing of natural gas and critical minerals through procurement, among more proposals for regulatory change. Individual Member States can also act on the political level, as when Germany in 2022 established

<sup>28</sup> Andersen et al. (2017) calls it liberal mercantilism.

its fully state-owned energy company SEFE (Securing Energy for Europe) and took over the ownership of Russian Gazprom Germania GmbH.<sup>29</sup>

Even though EU policy is mainly done through regulation of privatized markets, rather than through state management, asymmetries and historic path dependencies may not have left EU's normative ideal value-free either. EU's economic and political goals are naturally European, rather than Norwegian, Russian, or the nationalities of other suppliers of energy, and may in certain cases resemble mercantilist ways of dealing with a counterpart. Similar to John Mearsheimer (2018) on the role of realism in a liberal world, Russian energy academic Tatiana Romanova (2023) argues that there has been a dynamic coexistence of neoliberal and realist narratives in EU's discourse with Russia on international green cooperation and natural gas market design. Romanova argues that relative gains, strategic geopolitical autonomy/sovereignty, and closed alliances have been important in EU-Russian natural gas relations, and strengthened between 2020 and 2021, reinforced by the Russian invasion of Ukraine in 2022.

Ultimately, while the physical hard power rests with NATO, the USA, and EU member states, in its external energy governance, EU can use non-physical forms of hard power in the form of economic sanctions against an interdependent adversary, to hurt the other by denying access to its markets.

- *Economic power and geostrategy.* Economic sanctions, boycotts, economic warfare. Examples are the reciprocal sanctions between EU and Russia after the annexation of Crimea in 2014, strengthened by the invasion of in 2022, as discussed in the section on Weaponization.

If external measures are not sufficient to mitigate security-of-supply problems, domestic means must be used, as discussed in the section on Politicization and Securitization.

## 8. Conclusions and policy implications

The energy geopolitics of any region must be understood by both the relative size and location of own and others' resources, how available they are, who controls them, their cost, alternative transportation routes, how regional and global markets balance, market mechanisms and regulations, political decisions, and prices in general. The logic behind the Russian invasion of Ukraine seems to support a rather classical understanding of geopolitics, and valuation of physical expansion and control over territory to defend interests. This confronts the Western more "modern" understanding of geopolitics in an economically and politically interdependent world, where the importance of a geographic space depends not only, or necessarily, on direct physical control, but (also or rather) on wider understanding of institutions, rules and regulations. In either geopolitical understanding, for societal resilience, there is a need to think market economy and geopolitics at the same time, and to properly respond to exogenous international changes.<sup>30</sup> Strategic goods (like energy, food, medicine and other) may not be treated only as "just another commodity", neither in markets nor in security or international affairs.

The current enhanced securitization of energy has demonstrated that rather an optimal than a maximal free trade should be the goal in its

<sup>29</sup> Among major LTCs, in June 2023, replacing Russian imports, SEFE signed a 20-year contract for 2.25 million tons/year of LNG from American Venture Global. In December 2023, it signed a 10-year contract for 10 BCM/year, plus an option for another 5 years, with Equinor of Norway ([www.sefe-group.com](http://www.sefe-group.com)).

<sup>30</sup> See i.e. Keohane and Milner (1996) for several discussions of impacts from internationalization and change on domestic politics.

markets.<sup>31</sup> However, there should be no decoupling from trade, but for example for the EU, a derisking of the potential effects of the loss of supplies on which it is excessively import-dependent. The internal green shift is an important contribution for its diversification, and is part of the solution, but it takes time and may not yet have the potential to solve all of it. Countries are better off by becoming sensitive rather than vulnerable to accidents and malicious threats, if not the more ideal neutral situation is achievable. When the Ukrainian war eventually ends, it will be an economic win-win for all parties to trade with each other as normal business partners, with reciprocal safety and security concerns.<sup>32</sup> The more resilient the participants in a market can be against geopolitical or other shocks, the potential for antagonistic behavior is by itself also reduced.<sup>33</sup> Optimization of trade with respect to societal safety and security concerns as secondary conditions may have an economic cost in the short-term, but should add to economic and security benefits, and stability, in the long-term, for all participants in the market.

Norway's role as a significant petroleum exporter within the EU/EEA area, perhaps also a future mineral supplier, gives it some economic, political, and security concerns of its own, beyond the shared interests with consuming countries concerning optimization rather than maximalization of domestic energy trade. First, the country needs to derisk the potential for physical damage and economic and political pressure in its petroleum exports. The more energy Norway produces relative to its market share and geopolitical instability, the more security externalities may follow *per se*. It should expect both positive and negative attention, be it from companies, purchasing and producing countries, and big actors in international affairs. Energy widens the nation's external security policy focus, which for a long time has been emphasized on its position in the High North. The Arctic security challenges connected to Russian military locations remain, but at the extreme, in a "hot" conflict, Norway also risks the destruction (sabotage, cyber or other) of its production and infrastructure facilities, quite unthinkable just a few years ago. Damage to offshore installations and infrastructure would hurt Norway as an exporter, as well as EU member states as importers, and would in general create political and security instability. In the classical understanding of geopolitics where physical control matters most, military support from NATO and EU countries are important to Norway.<sup>34</sup>

Second, a favorable market position may not always prevail for Norway. If the market is oversupplied, its role in the geopolitics of energy will be less important for both friends and foes. In the natural gas market, Norway is largely one-sided dependent on sunk cost pipelines to purchasers in the EU, through specific transport corridors, where it faces a political and commercial dominant counterpart. Consumer interests naturally strongly influence the content of European energy policy and market regulations. Norwegian authorities and companies are quite alone in asserting views and interests related to the producer and exporter role and its need for security-of-demand.<sup>35</sup> Strength in good times should be used to prepare for more difficult times, with potential conflicts of interest played out concerning investments, production,

<sup>31</sup> As quoted from economist Jens Stoltenberg as later Secretary General of NATO: "Freedom is more important than free trade."

<sup>32</sup> Russia has in peacetime similar needs for security-of-demand and security-of-transit in its market and industrial design.

<sup>33</sup> EU (2024c) also discusses the suboptimal competitive and societal effects of basing most natural gas and electricity trade on spot prices.

<sup>34</sup> The country may also be drawn into conflicts far from its own territorial vicinity where Norwegian petroleum-related companies are involved, with a need for own political and diplomatic support and cooperation with allies. Similarly, foreign companies operating in places with conflict may be exposed to attacks in Norway.

<sup>35</sup> No energy importing country necessarily thinks it is fair that Norway should receive a significant economic rent from the sale of goods to their consumers, simply because nature has accidentally placed large petroleum resources in the North Sea.

prices, and contractual terms, negotiation positions, terms of trade, and counter-trade agreements, as well as on non-energy related political issues.

As external measures may have their limitations to address national challenges created by exogenous geopolitical instability, remaining challenges must be met with domestic measures, for all countries. A country should be as elastic as possible in its domestic response to shocks and pressure whether they are natural, political, or aggressive and antagonistic. Concerning short-term instability, to avoid Dutch disease type of problems, one domestic Norwegian measure was successfully taken long ago, as all government revenues from the petroleum sector are stored in the Petroleum Fund to decouple them from year-by-year state budget expenditures. An area for more attention appears to be the protection of domestic energy security (mainly concerning access to and price of electricity) after the transmission capacities to Northern Europe and the UK were strongly expanded in 2021. Optimal, rather than maximal, opening of the market towards other countries would improve energy security in its total defense. For long-term flexibility, sustainability, and reduced vulnerability, focus on non-petro industries and diversification of the economy should be enhanced. Norway should have unique opportunities to create better and more welfare, higher skills in the population, new viable industries, and to preserve and develop its cultural and social uniqueness. In this, improved soft and hard infrastructure<sup>36</sup> as backdrop for social support and alternative value-creating sectors are needed, rather than picking the winners.

To some extent, Norwegian authorities are today faced with fundamental challenges like in the early 1970s, when the petroleum business was established, and the visions of the Ten Oil Commandments were written. Foreign and security policy considerations in a more changeable world make it more complex now than then. To balance the energy political trilemma of security, affordability and sustainability, the geopolitics of energy expect Norway to have a realist-oriented policy towards changes in the outside world, and towards their domestic effects, while at the same time maintaining a liberal economic and political system at home. Over time, domestic concerns have been broadening gradually from a focus mostly on the energy industry and revenues to a more holistic, but also more conflictual, multi-sectoral perspective. Different from the consensus times of the 1970s, political divisions on many issues run deep within and across political parties, partly in realist vs. idealist domestic disputes, relations to the EU, a Climate Split and a Center-Periphery Split, partly concerning modern vs. post-materialist values, and possible rent-seeking activities against the state. However, external policies may rather not be an extension of domestic policies. In the transition to a greener, more sustainable, and secure, society, consensus-based long-term goals can be a challenge to establish and act on, as compared to when the petroleum sector successfully was built from nothing. At the same time, political ignorance may make the country sensitive and vulnerable to events and actions from all sides, friends, and foes, internally and externally.

All small states differ. Norway's main uniqueness is as a democracy rich in energy, with economic, political, and strategic consequences for both itself and others, giving it a role in the European geopolitics of energy. Norway's non-politicized and mostly commercial voiced principles supporting petroleum (and later capital) exports appear to be wise as a signal of a liberal attitude and modesty towards the outside world. Because it is small, Norway might not easily use its energy to project pressure on others, or weaponize its exports. By comparison, the new and bigger global petroleum export democracy, the USA, might, as a superpower, think differently for its role. Small state Norway has rather

the potential of being met with pressures itself, but it should also have potential of creating room for both external and domestic political maneuvering. A prerequisite may be clear self-defined economic, political and security goals (external and domestic) argued in the realism of both classical and modern geopolitical understandings. Not via pressure, force or conflict like big states more easily can do, but rather via active national adaptation in interaction with, and with a good understanding of, the outside world (the EU and other). It may well continue to officially have a "low cigar" abroad, but in commercial and political relations it should be aware of its role and image as a major energy actor and a consequently rich state, and not only as an otherwise small country in European and world affairs, giving grounds for sustained economic, social, and political development.

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## Data availability

No data was used for the research described in the article.

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<sup>36</sup> Soft infrastructure is often considered services required to maintain the economic and social needs of a population, including health, culture, education, research and development. Hard infrastructure is mostly considered the tangible, physical assembly of structures such as roads, bridges, tunnels, railways, broadband, air- and seaports. See e.g. Hayes (2005).



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