



NORWEGIAN GAS IN THE NEW EUROPE How Politics Shape Markets

edited
by
Ole Gunnar Austvik

Published in 1991

This book was published in the series "Norwegian Foreign Policy Studies" (NUPI). Publisher: "Vett & Viten", Sandvika, Norway. Supported financially by the Norwegian Research Council for Social Sciences (NORAS).

Publisher: NUPI/Vett & Viten August 1991, 144 Pages, Norwegian Foreign Policy Studies no.76, ISBN 82-412-0064-1.

[Vett & Viten](#), P.O. Box 203, 1379 Nesbru, Norway Tel: 66 84 90 40 Fax: 66 84 55 90

SUMMARY:

The book discusses Norwegian gas strategies in light of the economic and political integration taking place in Europe today. How will the New Europe influence the framework and trading rules in tomorrow's gas market? How should Norway adopt to these changes on the political and commercial level? Should gas strategies be designed differently in the nineties than in the eighties? What is the optimal volume of and pricing policy for Norwegian gas? Can anything be learned from the strategies applied in the eighties?

Table of contents:

Introduction.

Martin Sæter: EC Integration and Energy Policy: Consequences for Norway.

Terje Vareberg, Statoil: Major Challenges Facing Norway as a Gas Producer

Ole Gunnar Austvik: [The Open Access Issue: A Gas Producer's Perspective \(pdf - 85 KB\).](#)

Janne Haaland Matlary: The EC Policy-Making Process in the Field of Energy: An Analysis With a View to Norwegian Interests.

Janne Haaland Matlary: Selling Norwegian Gas: From Collective Downstream Strategy Towards Individual Downstream Integration?

Ole Gunnar Austvik: [Norwegian Gas in an International Context: The U.S. Embargo of Soviet Gas in 1982](#)

Øystein Noreng: The Prospects for Norwegian Gas to Central and Eastern Europe

Appendix: European Gas Trade 1978-89

Introduction

The process of EC integration is accelerating. The EC Community may be expanded by new member states. The economic, political and military situation in what was called the Eastern Bloc is changing dramatically. The East-West tension is weakened. It seems rather unlikely that the economic and political situation that prevailed in Europe as late as in the eighties can recur in the nineties.

Remark: You are welcome to download, print and use this full-text document and the links attached to it. Proper reference to author, title and publisher must be made when you use the material in your own writings, in private, in your organization, in public or otherwise. However, the document cannot, partially or fully, be used for commercial purposes, without a written permit.

Also the field of energy is being increasingly drawn into this process of change, both in the EC and in the East-West context. Many of the factors that have shaped the framework and functioning of the European gas market until now may

be quite different in the future. Furthermore, economic growth, increased environmental concerns and a desire to reduce dependency on Middle East oil indicates need for more natural gas.

For Norway, these processes are of fundamental economic and political importance. The result will not only depend on exogenous shifts in the surroundings and other countries' and companies' policies. Also Norway's own policy toward the New Europe, and commercial steps taken, may have significant impact on outcomes. This is especially valid in the gas sector where Norway has a significant market share. The importance of Norwegian gas as an alternative to the other suppliers may give an additional say in the formulation of a New European energy policy.

No other country has identical interests with Norway in the field of petroleum. Norway is the major energy exporter in Western Europe, while most other countries are importers. Therefore, participation, of one kind or another, in the processes that lay the foundation for future European energy policy seems to be of vital importance for Norway, regardless of formal EC membership or not. In the gas market, small margins may soon constitute billions of dollars.

In a rapidly changing Europe and given Norway's central position in the energy field, there is no doubt a need for reassessment of established guidelines and practices. How does the New Europe influence the framework and trading rules in tomorrow's gas market? How should Norway, from her role as a major natural gas exporter, adept to these changes, on the political and commercial level? Should gas strategies be designed differently in the nineties than in the eighties? What is the optimal volume of and pricing policy for Norwegian gas? These are among the questions that, from various points of views, are discussed in this book.

In the first article, *Martin Sæter*, focuses on "EC Integration and Energy Policy: Consequences for Norway". It gives a comprehensive introduction to the overall European and EC processes toward the Single Market and the broad consequences for the market for natural gas. Sæter argues that the Single Market poses challenges of a new kind. The development of a common energy policy foresees a transfer of competence from the national states to the Community level as well as readjustments on the part of reluctant companies. The question is not whether or not there should be national state control or control by the multinational companies, he argues. The challenge is rather how to fit practices of both states and companies into the frameworks of regional integration in such a way that it furthers the process toward economic and political union. The principles and regulations of the energy market must be in accordance with those of the Single Market in general as Community principles are likely to prevail.

Energy is one of the most vital areas, especially for countries like Norway and the Soviet Union. Through a policy of adaptation to the internal market, Norway will increasingly be subjected to Community rules and regulations as in the ongoing redefinition of the relations between the EC and European non-members. Both Norway as a state and Norwegian petroleum exporting companies will have to orient themselves increasingly toward the Community as such, i.e. in the first place the EC Commission. The one-sided dependence on the importing companies on the Continent will have to be balanced out, he argues.

Terje Vareberg in Statoil argues in his article "Major Challenges Facing Norway as a Gas Producer" that demand for natural gas can be expected to grow in the coming years. However, he underlines that higher prices are necessary to give suppliers the ability to meet this demand with sufficient supplies. Thus, the relationship between oil and gas prices should be reconsidered, he argues, to fully represent the correct properties of natural gas.

The present commitment for natural gas exports from Norway amounts to 47 BCM annually by the year 2005. The entire volume will be exported to countries within the EC. Vareberg sees difficulties in increasing Norwegian gas production above 60-65 BCM within this time frame, because of technical and resource limitations. In order to manage to develop the total field portfolio on the Norwegian Continental Shelf in an efficient manner, cooperation between companies and production licenses is necessary. He concludes that the combination of physical integration, the GFU, an allocation process and what is called the Troll Commercial Model is an adequate way to organize gas activities in Norway.

Ole Gunnar Austvik's article "The Open Access Issue: A Gas Producer's Perspective" outlines that governmental regulations are often needed for natural gas pipelines to operate efficiently. With the introduction of the Single Market in 1992, the EC Commission has put particular focus on the role of the natural gas transmission companies. It considers the introduction of some sort of a Common Carriage, or Open Access, system in order to regulate what they call de facto monopolies in the market. However, a number of rather complicated issues must be clarified before any detailed regulation can be introduced. Such concerns relate both to various techno-economic problems as well as to how regulations can be expected to work within the context of the Western European gas market.

The complex nature of the problem indicates that no easy and "once-and-for-all" solutions can be expected to be found. However, if these problems are resolved, Norway may benefit by getting easier and cheaper access to markets in non-neighboring countries. This may require a greater downstream activity and sales network. Even though a regulation of the transmission lines may lead to lower prices to consumers (distribution companies, electric utilities and large industrial users), prices to producers may increase if the concentration of market power on the hand of producers can be maintained. Austvik argues that the economic profit now earned by transmission lines may be distributed to consumers and producers, respectively.

Janne Haaland Matlary studies in her article "The EC Policy Making Process in the Field of Energy: An Analysis With a View to Norwegian Interests", the content of and decision-making structure in EC policy-making in the field of energy. She follows the decision-making for major proposals of the internal energy market, and argues that ultimately interest groups in the segment mean less than the logic of the internal market as such. She supports this by the development toward a more comprehensive energy policy at the Community level, exemplified by the majority voting on internal market directives. Also external events, such as the situation in the USSR and the need for "cleaner" forms of energy in Eastern Europe, account for this development.

Matlary argues that EC membership would benefit Norway increasingly as the importance of influencing the supranational energy policy that develops is getting ever more important.

Janne Haaland Matlary's article "Selling Norwegian Gas: From Collective Downstream Strategy Towards Individual Downstream Integration?", deals with the strategic choices facing Norwegian gas companies, especially with regard to downstream integration. Hitherto none of the Norwegian companies have been very active beyond Norwegian borders in terms of developing a presence in the market in Europe, she argues. Norsk Hydro is an exception, but in its gas selling strategy also this company has stuck to the common strategic choice of cooperating in the Gas Negotiation Committee (GFU).

Matlary underlines that it has been very difficult to "go downstream" in Europe because of national restrictions on foreign ownership of pipelines and gas import companies. But the opportunities for investments downstream are multiplying with the advent of the internal market of the EC. She argues that the companies should pursue such a strategy.

Ole Gunnar Austvik addresses in "Norwegian Gas in an International Context; The U.S. Embargo of Soviet Gas in 1982", the increased role of petroleum in Norwegian foreign and commercial policy. The U.S. failure in halting huge new Soviet gas supplies to Western Europe in the beginning of the eighties, and the encouragement of using Norwegian gas as a substitute, are used as examples on how Norwegian energy policy previously have been drawn into and influenced by international political processes and conflicts.

Austvik underlines that as long as energy still is a "life-line" for any country's economic life, Norwegian petroleum may increasingly be politicized, whether Norway likes it or not. Therefore, the formulation of an international petroleum strategy must involve a dynamic and active attitude to an international political and commercial situation that evolves over time and which may even change suddenly and abruptly. Today's processes in Europe is an example on a challenge that Norway faces in her international energy policy. The important role of energy in international affairs indicate that Norwegian energy policy must adjust to the, at any point in time, existing framework for the gas market and also, if possible, influence market rules. The author suggest some options that Norway could have chosen, and critically assesses the options that were chosen, in case of the embargo of the Soviet gas pipeline.

Øystein Noreng points out in his article "The Prospects for Norwegian Gas to Central and Eastern Europe", that the new Europe, with no Berlin Wall or Iron Curtain, has created a different world. In Central and Eastern Europe there is an urgent need to replace pol-lutant brown coal with other sources of energy. The new gover-nments of these countries give high priority to reducing dependence upon the Soviet Union, as well. Noreng underlines that these countries' major problem, except perhaps in eastern Germany, is the ability to pay and currency convertibility.

Noreng sees the possibility that the eastern parts of Germany, eventually together with Czechoslovakia and Poland, could become impor-tant new markets for Norwegian gas. The demand would be in the residenti-al-commercial sector and to some extent in cogenera-tion of steam and power. Austria and Hungary could buy smaller volumes of Norwegian gas for households and power generation. Noreng argues that market conditions, then, could justify the construction of a new trunkline for gas from Norway to northwest Poland, with an extension to Austria, Czechoslovakia and Hungary. From a Norwegian point of view, one advantage of such a new trunkline would be to bypass Germany and the area presently controlled by Ruhrgas, Noreng argues.

The alternative views and strategic approaches set forth in this book may diverge from another. The perception of how

politics shape markets, and how markets shape politics, has profound consequences for the formulation of Norwegian gas strategies. The authors and the editor of this book have sought to illuminate the issues and expose a range of assumptions and estimates of the situation that underlay the choice of policy. It is for our readers to absorb and evaluate these debates, and to judge for themselves which of the choices best serve the interest of Norwegian gas in the new Europe.

Oslo, July 1991

Ole Gunnar Austvik

Positions of the contributors (1991):

Ole Gunnar Austvik (editor): Senior Research Fellow at the Norwegian Institute of International Affairs (NUPI) and Associate Professor at the Norwegian School of Management (BI). Ole Gunnar Austvik's main area of concentration is international petroleum economics.

Martin Sæter: Senior Research Fellow at the Norwegian Institute of International Affairs (NUPI) and Professor at the Institute of Political Science, University of Oslo. Martin Sæter is one of Norway's most prominent experts on European integration.

Janne Haaland Matlary: Senior Research Fellow at the Norwegian Institute of International Affairs (NUPI). Janne Haaland Matlary's main area of concentration is European integration with the emphasis on natural gas.

Øystein Noreng: Professor at the Norwegian School of Management (BI). Øystein Noreng is one of Norway's most prominent experts on international energy policy issues.

Terje Vareberg: President in Statoil's natural gas division. As leader of the GFU - the Gas Negotiating Committee - Statoil is in charge of the sale of natural gas from the Norwegian continental shelf.

Kontakt / Contact