

Is the Arctic Way Forward for the Norwegian Oil Industry?

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Intro

Norway is one of the most active Arctic players in oil drilling and production. The first petroleum discovery in the North Sea was Ekofisk field in 1969, and the production from this field started in 1971.¹ During the following years, several large discoveries were made in the North Sea, which remains Norway's main oil province today.² However, besides the North Sea, the Norwegian Continental Shelf comprises of the Northern Ocean areas of the Norwegian Sea and the Barents Sea, of which only the latter is entirely located above the Arctic Circle.

Oil Reserves

Norway is an oil-dependent country. It has proven oil reserves of 10.2 billion barrels³, which also equals about 50 percent of Western Europe's oil and gas reserves.⁴ In 2004, Norway exported an average of 2.9 million barrels of oil a day, making it the third-largest exporter of crude oil in the world, behind Saudi Arabia and Russia. Its earnings from the sale of oil and gas have constituted one-third of government revenue, as well as providing jobs for nearly a quarter of a million people who were employed not just in the energy industry but in providing the vital infrastructure - ships, buildings, and essential services - that is needed to support it.⁵ Additionally, the recent historical drop in global oil prices is deteriorating the economic damage.

Decline in Reserves

After enjoying almost 40 years of virtually uninterrupted growth, the

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¹See "Norway's Oil History in 5 Minutes", Government.no, available at <https://www.regjeringen.no/en/topics/energy/oil-and-gas/norways-oil-history-in-5-minutes/id440538/> (Last visited on November 30, 2018).

² Henderson, James & Loe, Julia; "The Prospect and Challenges for Arctic Oil Development", The Oxford Institute for Energy Studies, 2014. p. 40. Available at <https://www.oxfordenergy.org/wpcms/wp-content/uploads/2014/11/WPM-56.pdf> (Last visited on November 30, 2018).

³Norwegian Petroleum Directorate 2016, available at <http://www.npd.no/Global/Norsk/1-Aktuelt/Nyheter/Sokkelaret-2016/Presentation-The-Shelf-2016.pdf> (Last visited on November 30, 2018).

⁴ Koivurova, Timo & Hossain, Kamrul; "Offshore Hydrocarbon: Current Policy Context in the Marine Arctic", Arctic Centre, 4 September 2008, p.10. Available at <http://arctic-transform.org/download/OffHydBP.pdf> (Last visited on November 30, 2018).

⁵ Howard, Roger; "The Arctic Gold Rush The: New Race for Tomorrow's Natural Resources", Continuum Publishing, 2009, p.201.

North Sea oil wells started to decline.⁶ Norway's oil output has seen a 50 percent drop since 2000, and it lost 25,000 oil-related jobs in the last three years, which accounts for 11 percent of Norway's oil industry workforce.⁷ Consequently, it is evident that the decline, in both oil reserves and recent global oil prices, has caused an enormous damage to the Norwegian economy.

Norway is in great need of finding new drilling fields and keep the production level high in order to compensate for the demand. In this perspective, the Arctic holds the greatest promise. The Norwegian government has taken numerous actions towards moving the production activity northward, to new fields located above the Arctic Circle.⁸ It is also important to note that the Norwegian tax rules allow private companies to deduct exploration costs from income generated elsewhere in Norway. This means that the state effectively covers 80 percent of the costs, a major incentive for exploration.

Barents Sea Agreement

A 44-year-old border dispute regarding an area made up 12 percent of the whole Barents Sea, which is the equivalent of 45 percent of Norway's total land area (about 176.000 square kilometers) was settled in an agreement that was signed between the Russian Federation and Norway on September 15, 2010. The agreement entered into force on July 11, 2011.⁹

The settled area, formerly known as the Grey Zone, is believed to contain a substantial amount of biological and hydrocarbon resources. Some rough estimates reveal up to 17 billion barrels of oil and 5-6 trillion cubic meters of gas under the seabed, although most predictions suggest fewer carbon resources on the Norwegian side.¹⁰

While analysts estimate that it could take 12 to 15 years for commercial production to begin in the newly delineated sector, finding new resources is considered to be a timely endeavor, and it has a very positive effect on Norway's economy because uncertainty over this area cast a shadow over big energy projects for a

⁶ Kennedy, Charles; "Norwegian Oil Production to Hit 25-Year Low, East Arctic the Key?" 28 August 2013, available at <http://oilprice.com/Latest-Energy-News/World-News/Norwegian-Oil-Production-to-Hit-25-Year-Low-East-Arctic-the-Key.html> (Last visited on November 30, 2018).

⁷ See Oilprice.com "Why The Arctic Oil Dream Is Not Over Yet", May 23, 2016, available at <http://www.nasdaq.com/article/why-the-arctic-oil-dream-is-not-over-yet-cm624690> (Last visited on November 30, 2018).

⁸ Klare, Michael T.; "The Race for What is Left: Global Scramble for the World's Last Resources", Metropolitan Books, New York, 2012, p88.

⁹ Arctic Forum Foundation, "Delimitation agreement: A new era in the Barents Sea and the Arctic?", available at <http://eu-arctic-forum.org/allgemein/delimitation-agreement-a-new-era-in-the-barents-sea-and-the-arctic/> (Last visited on November 30, 2018).

¹⁰ Id.

long time. Clarity will bring investment and prosperity.

The Barents Sea Prospect

The Barents Sea is believed to be an immature petroleum province with a huge potential, which can compensate the diminishing oil reserves in Norway.¹¹ Under the agreement, each country has the right to develop oil and gas on its side of the border, therefore, after the 2010 agreement regarding delimitation of the disputed Barents Sea region, seismic work began on the Norwegian side.

Significantly, the delimitation agreement also includes an annex regulating the unification of potential transboundary hydrocarbon deposits, based on analogs from the North Sea. The parties are required to reach agreement on the joint exploitation of deposits that extend into the continental shelf of other country, and no party may start production from such deposits unilaterally. This means that potential developments on the Norwegian side could be delayed or halted by Russia, which might have a different time perspective on exploitation.¹²

Furthermore, any big cross-boundary discovery will require extensive Norwegian-Russian cooperation and joint development in order to reach the critical volumes needed to make the discovery commercial. Additionally, the parties have to find a common solution to the infrastructural development required for such a joint effort.¹³

In contrast to the other parts of the Arctic, the south-western part of the Barents Sea is almost ice-free, and the conditions are similar to those of the Norwegian and North Seas. As a result, the operational window for drilling is long compared to other parts of the Arctic.

The Goliat and the New Licenses

The Goliat, Norway's first Arctic oil field, and production site, was discovered in 2000 through the first exploration well drilled in the Barents Sea area.¹⁴ The field is currently being developed by ENI¹⁵ with a floating production, storage, and offloading (FPSO) facility that is located approximately 85 km northwest of Hammerfest. The Goliat field is believed to hold approximately 180 million

¹¹ Katherine Keil, K.; "The role of Arctic hydrocarbons for future energy security", Nautilus Institute, a NAPSNet Special Report, (2014), available at <http://nautilus.org/napsnet/napsnet-special-reports/the-role-of-arctic-hydrocarbons-for-future-energy-security/> (Last visited on November 30, 2018).

¹² Henderson & Loe, *supra* note 2, p.52.

¹³ *Id.*

¹⁴ See Eni Norway web-site, available at <http://www.eninorge.com/en/Field-development/Goliat/Facts/> (Last visited on November 30, 2018).

¹⁵ In May 2009, the Norwegian government permitted Eni of Italy to produce with development of the Goliat Field, the first petroleum deposits to be exploited in the Barents Sea.

barrels of oil, and ENI will pump out 100.000 barrels of oil per day.¹⁶

Additionally, in 2016, Norway has awarded 10 new oil and gas licenses to explore the untapped area of the Arctic Barents Sea.¹⁷ This was the first time Norway was offering licenses to new acreage in 20 years.¹⁸ Later in 2017, Norway's Petroleum Directorate again awarded a record 75 new exploration licenses, eight of which are in Norway's Arctic Barents Sea, to Statoil, Aker BP Total, Shell, ConocoPhillips, and other companies.¹⁹

Conclusion

The new licensing rounds are significantly important because they demonstrate the Norwegian government's decisive stance behind the oil exploration decision in the Arctic Ocean. However, in the aftermath of Shell's historical Arctic withdrawal in Alaska,²⁰ and global commitment to reduce carbon emissions, the Norwegian effort to explore oil in the Arctic Ocean puts the government right under the spotlights as an epicenter of Arctic oil

drilling discussions. Norway has to face an increasing pressure to keep the oil where it is and commit to 2015 Paris Agreement. And if this is not desirable, which seems to be the case right now, then Norway has to set an ideal example by conducting a sustainable, environmentally sound and safe, drilling operation in the Arctic Ocean.



¹⁶ Id. See also Klare, *supra* note 8, p88.

¹⁷ Oilprice.com, *supra* note 7.

¹⁸ The Guardian, "Arctic oil drilling: outcry as Norway opens new areas to exploration", May 2016 <https://www.theguardian.com/world/2016/may/19/norway-arctic-new-oil-drilling-licences> (Last visited on November 30, 2018).

¹⁹ The Barents Observer, "Government Issued new 75 Licenses in Norwegian Waters", available at <https://thebarentsobserver.com/en/industry-and-energy/2018/01/government-issues-75-new-licenses-norwegian-waters> (Last visited on November 30, 2018).

²⁰ Biley, Alan, "End of the Road: Shell Finally Calls a Halt to Its Alaska Arctic Offshore Oil Exploration Campaign", *Petroleum News*, Vol.20, available at <http://www.petroleumnews.com/pntruncate/278039287.shtml> (Last visited on November 30, 2018).