

Optimism on behalf of the Norwegian Continental Shelf

By Karl Eirik Schjøtt-Pedersen,
Director General, Norwegian Oil and Gas Association



On the 20th of June this year a Stavanger newspaper printed a lengthy article titled: *Two years since the downturn started*. The article serves as a chronological review of the two years which have passed since the oil price started its steep decline from US\$115 dollars per barrel on June 20 2014. Stavanger is Norway's "oil capital" and is particularly hard hit by the industry's downturn, but the implications are significant for the entire Norwegian economy. In 2015 the oil and gas sector accounted for 17 per cent of GDP, 20 per cent of government revenue, 26.5 per cent of all investments and 42 per cent of our total exports. Furthermore, the industry employs people in all but 15 of Norway's 438 municipalities.

Cost reductions have led to approximately 40,000 layoffs in the industry – a significant number in a small country such as Norway. We need to acknowledge that behind the statistics

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there are people, families and communities that are deeply affected by the reduced activity.

Hence, the situation has triggered substantial national press coverage and public debate. For the last two years *everybody* has been speaking about the "oil crisis" and what we should do "after" oil and gas. Environmentalists and others are also questioning whether Norwegian Continental Shelf (NCS) oil and gas production will be acceptable or even profitable in the long term given the reduction of greenhouse gas emissions that will be required to meet global targets for curbing global warming and the recent advances in renewable energy production. Based on the press coverage and public debate, it may seem like the future of Norway's oil and gas industry is bleak.

I have spent a lot of time visiting member companies; operators, exploration companies and suppliers. In my meetings with the industry, I experience optimism.

I meet senior executives that are dedicated to cutting costs, developing new technologies and revising their thinking in order to remain competitive in the face of lower prices. Statoil, the largest NCS operator, has reduced the average break-even oil price in their NCS project portfolio from above US\$ 70/bbl in 2013 to US\$ 41/bbl in 2016 and the efficiency improvement work will continue.

On the 18th of May, the Ministry of Petroleum and Energy announced the 23rd licencing round awards. For the first time since 1994, new exploration acreage was offered to the petroleum industry, opening up new areas of the Barents Sea, including parts of the previously disputed area along the Norwegian-Russian border.

We have reason to believe that there are significant amounts of oil and gas in the Barents Sea. The region is considered an immature petroleum province and new discoveries in recent years encourage this optimism. According to the Norwegian Petroleum Directorate the Norwegian Barents Sea may contain as much as 10 billion barrels of oil and gas equivalents.

Most prognoses on future energy consumption predict that even within the 2 degree target for global warming, the share of oil and gas in the future energy mix will be substantial. Norwegian oil and gas production is subject to strict environmental regulations and has for many years paid a CO₂ price that is substantially higher than in most other oil and gas regions. As a result, the NCS CO₂ emission per produced barrel of oil equivalents is more than 50 per cent below the global average.



Moreover, we believe that there is a large potential for reducing Europe's CO₂ emissions by replacing coal-fired power plants with gas-fired plants as the latter have less than half of CO₂ emission per KWh produced electricity. In the longer run it is also our view that carbon capture and storage may have a significant emission reduction impact both for power production and for other industrial segments.

The Norwegian oil and gas industry is embracing the ambitions and international commitment agreed in Paris, and is prepared to work aggressively to reduce our future carbon footprint.

Currently we are working on a policy roadmap for 2050 that will outline tough ambitions for value creation and greenhouse gas reductions as well as indicating follow-up actions. We need to stretch our ambitions farther than we believe is possible and force ourselves to develop the solutions and technology which are required to deliver on the ambitions. This is a commercial, and a moral responsibility. The roadmap is developed in a joint effort by the Norwegian Oil and Gas Association, the Federation of Norwegian Industries, the Norwegian Shipowners' Association, and the Norwegian Confederation of Trade Unions (LO). The work will be presented in mid-August along with a more detailed climate report.

As representatives of the Norwegian oil and gas industry, we in the Norwegian Oil and Gas Association have made it a priority to take part in the debate about the industry's future. Frequently this is a debate in which emotions and perceptions rather than facts, dominate. The perceived reality influences our general reputation and the decisions taken by the politicians about the industry's operating parameters. Thus, if we are not present in shaping the public perception then we leave it to others, to define us. We cannot predict the future accurately, but the knowledge of the industry dynamics as well as analyses and projections of the future, give us a good understanding of the main challenges and possibilities we face as we enter our 50th year anniversary of operations on the NCS.

We know that there are substantial amounts of oil and gas out there, yet to be discovered and produced. According to the Norwegian Petroleum Directorate, we have so far produced only half of the estimated NCS resources.

And, even though the rate of investments on the NCS has been reduced during the past two years, we are still at a historic high level, and our most reliable prognoses indicate that we will remain at the current level for a long time. This level of investments equals six times that of the total



Norway's petroleum industry supports the jobs of more than 250,000 people

manufacturing industry in Norway combined.

Even with a loss of 40,000 jobs in the industry since 2014, we are still a dominant employer in Norway, with more than 250,000 people employed directly or indirectly in petroleum activities.

The world is slowly moving towards the age of low emissions and we believe that low carbon emissions from our operations will become increasingly important as a competitive advantage in the decades to come. Going forward, our emission reductions will need to happen in parallel to the relentless efforts to add new profitable barrels through exploration, innovative field developments, efficient operations and increased recovery initiatives. In this context the Norwegian Continental Shelf will remain competitive for many years to come.