

The Geopolitics of Barents Sea Oil and Gas: the Mouse and the Bear

By Ole Gunnar Austvik*

Land and sea areas in the European arctic region are dominated by Norway and Russia. The first offshore seismic surveys were undertaken on the Russian side in the 1970s, leading to the discovery of the giant fields Shtokmanovskoye, Ledovoye and Ludovskoye. Further south in the Pechora Sea many smaller fields were identified. To the east of Novaya Zemlya, in the Kara Sea, the Russians discovered two other giant gas fields: Leningradskoye and Rusanovskoye (Moe 2004). On the Norwegian side there has been less exploration. The first licenses for oil and gas exploration were awarded in 1980, leading to the discovery of the Snøhvit gas field in 1984. There are also potential oil and gas deposits in the disputed area between Norway and Russia, where no drilling has as of yet taken place. The seismic surveying conducted in the area by the Soviet Union prior to 1982 provided cause for optimism (the Russians are said to have identified the large Fedinsky High field in this area).

Taking the two countries together, more than 100 wells have been drilled in the Barents Sea. Assessments indicate that there are some 5-6000 mtoe (million tons of oil equivalents) in the area; 80 % of this on the Russian side. Some three quarters is expected to be natural gas. At present Snøhvit is the only offshore field considered commercially viable and under development. Exploration activities have, however, not been very intensive on either the Norwegian or the Russian side. The assertion that 25 % of world unknown reserves are to be found in the Arctic (U.S. Geological Service) remains unfounded. But there is no doubt that reserves are substantial in a global context. The exploitation of most of the resources depends, however, on the availability of new sub-sea technologies, substantial amounts of capital, political will and, on the Russian side, a trustworthy statutory and political framework.

Geopolitics is defined as the study of the way geographical (and often also historical and social) factors help explain the power of nation states (reference.com). In classical formulations the links and causal relationships between political power and (physical power over) geographic space were emphasized (Kjellen 1917). In the more economic and political integrated world of today, the term seeks to understand how control over territory influences political power and political and economic outcomes through factors, mechanisms and institutions in the international economic and political system (Agnew & Corbridge 1989). Hence, the geopolitics of any resource rich region is to be understood not only from the area's own resource endowment. The size and location of other energy resources, how available they are, who controls them, their cost, how regional and global energy markets balance, and energy prices in general, are also important. From this perspective, we will focus on some basic elements for an understanding of the geopolitics of Barents Sea oil and gas developments.

Norwegian – Russian Energy Relations

During the Cold War security issues dominated policies in the North, with Norway under the U.S. and NATO umbrella. Norway and Russia competed in energy markets, but their adherence to opposite economic and political poles oriented exports to a large extent to different markets. Norwegian oil and gas was almost entirely directed to Western European countries (and some oil to the U.S.), while more than half of Soviet exports were devoted to Eastern Europe and the Soviet Republics. After the break-up of the Soviet Union, international economic and political integration processes have become more comprehensive in depth and scope than ever before. Russia has notably increased its exports to Western Europe. A stronger awareness has emerged of joint interests in market developments, prices and contractual terms between Norway and Russia.

As Russia moves (slowly) towards a market economy and integration into the EU and world economy, she is converging with Norwegian petroleum policies in some areas (Austvik & Tsygankova 2004). Even though Russia has no EEA (European Economic Area) agreement with the EU, she is integrated into EU energy markets (although not in such a one-sided manner as Norway), and been influenced in similar ways as Norway by downstream market changes and policy measures, such as market regulation and taxation. Russian gas policy is, however, not “domestified” within the EU and they have been able to arrange their petroleum industry in a rather independent manner. As a result Gazprom has not been forced to unbundle its activities, and instead strengthened its position over the past years as a producer and transporter of gas within Russia.¹

There are significant structural differences between the oil and gas sec-

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See footnotes at end of text.

tors. There has been a struggle over competence between the government and the oil companies, while there has been less political interest in changing the non-competitive structure of the natural gas industry. The government has made efforts to strengthen the direct control of the Gazprom “monster”. For example, Gazprom still wants to sell her gas before a field is developed (Miller 2006) in contradiction to the principles of EU market liberalization. Furthermore, President Putin is accused not only of letting Gazprom exploit market power, but also for using it to rebuild Russia as a super-power, this time by the means of energy rather than weapons.

The fact that Russia is still not fully integrated in the international economy, as for example in terms of membership in the World Trade Organization (WTO), has also had some negative impacts on the country. Relatively low competitiveness of Russian products and a number of out-dated production technologies developed during the Soviet era are still in operation, giving her a technological disadvantage.

So far foreign companies’ participation in the Russian oil and gas sector has been limited. The new German-Russian consortium to build the Baltic gas pipeline may be a signal from the Russians that they may involve themselves more directly with foreign companies in the future. On the other hand, the problems that Shell has experienced in Sakhalin II and BP now in the Kovytkva field, demonstrate that the Russians may continue to be rather reluctant to involve international oil and gas companies. Russians primarily seem now to wish to develop oil and gas fields by their own efforts, and invite international sub-entrepreneurs in projects rather than expand shared ownership with international oil companies.

Norway has on her side developed and maintained a highly professional petroleum administration led by a state enterprise (Austvik 2007). Norway has been rather successful in making industrial arrangements efficient and to the interests of the Norwegian government and companies. The highly competent and specialized Norwegian petroleum “cluster” is well positioned for the development of fields on both Russian and Norwegian sides. The sub-sea technologies developed at Ormen Lange and Snøhvit, horizontal drilling expertise, laying of long-distance sub-sea pipelines, LNG-technology and other innovations are important elements with respect to “know-how”. Parts of this Norwegian technological leadership are shared by sub-contractors in a European and international network.

The question of knowledge, good relations and confidence building become important for how Norway and Russia can cooperate in the Barents region. Communications should be improved on a practical level, the competence of the Norwegian petroleum system should be enhanced and possibly be exported to (parts of) the Russian system. Likewise, the Russians could (or should) invite a Norwegian company to play the role as operator of a field (such as Stockman). To develop and operate such a new giant field, is not only a question of technological, but also managerial and organisational competence.² Norway could also invite Russian companies to participate in her petroleum industry.

If engaged on the Russian side, however, the Norwegian industry needs to be supported politically by stable and predictable law making, taxation policies, political good will, and infrastructural development, secure sub-deliveries, etc. Norwegian authorities should be instrumental in the provision of this support, but the industry could also need the support of EU countries and the U.S. EU and American companies may become partners with Norwegian companies and/ or suppliers to projects on both Norwegian and Russian sides.

Environmental Challenges

The Barents area with its cold climate and waters represents a rather vulnerable environment with respect to the conservation of wildlife, bio-diversity, fisheries and nature. In 2003, the Norwegian government decided to continue oil and gas exploration in the southern parts of the Barents Sea minus some areas defined as especially vulnerable. Environmental regulations are stricter here than further south on the NCS (Norwegian Continental Shelf). A more integrated plan for the entire Barents Sea concerning resource management, the environment and economic and political interests was presented in spring 2006 (Ministry of Environment 2006).

The biggest environmental threats at present are, however, considered to come from the Russian side. There is already a risk of oil spills from the increased traffic of Russian oil tankers off the Norwegian coast. There are plans to build a 2 mbd oil pipeline to Murmansk. This would increase the traffic of oil vessels along the Norwegian coast substantially, and demonstrates the need for proper regulations.

Environmental concerns raised by increased petroleum activity in the area, lead to calls for greater cooperation between Norway and Russia. The industry has argued that the best way of influencing Russian environmental standards and practices is by showing practically how it can be done on the Norwegian side, and by offering environmentally sound partnerships with partners on the Russian side. This would reduce environmental risks for the Norwegian coastline and waters as well. However, the

situation also demonstrates a need to create a broader European and international understanding about these challenges.

Jurisdictional Issues

There are several jurisdictional issues that are not clarified in the area. Firstly, the disagreement over the marine delimitation of the economic zone and the continental shelf between Norway and Russia (the “disputed area”) has not been settled. Norway maintains that it should follow the median line principle, while Russia argues that it should follow the sector line principle. The difference represents some 175,000 square kilometres, an area larger than the Norwegian North Sea south of the 62nd parallel. Negotiations have been going on for 30 years.

Russia has argued that some sort of condominium could be established in the area without settled borders. Norway has maintained that cooperation can only be established when a delimitation line is drawn. For fisheries, however, an interim arrangement was made in 1978 in the so-called “Grey Zone”, regulating the parties’ right to inspect vessels in the area. This zone covers some, but not all, of the disputed area within 200 miles, but also some undisputed Norwegian and Russian waters.

There is no international disagreement about Norwegian sovereignty over the Spitsbergen Archipelago (Svalbard). Through the Spitsbergen Treaty of 1920, Norway was granted “full and absolute sovereignty” over the islands, defined by coordinates (often called the “Svalbard box”). However, according to the Treaty, Norway cannot discriminate subjects of other signatories and cannot impose higher taxes than needed for the administration of the islands.

There is some controversy pertaining to the provisions of the Spitsbergen Treaty; especially when it comes to the sea areas beyond territorial waters and the ocean floor. It is not known whether or not they are promising areas for petroleum activities. Norway maintains, however, that the provisions of the Treaty do not apply to the economic zone around the islands, and instead provide unrestricted Norwegian jurisdiction; the continental shelf around Svalbard is a continuation of the continental shelf of mainland Norway (except for the 12 mile territorial waters around the coastline of Svalbard). Some signatories have, contrary to this, argued that Svalbard is entitled to its own economic zone, governed in the same way as the islands.

Norway established a ‘Fisheries protection zone’ of 200 miles around Svalbard with non-discriminatory regulations in 1977 (same principle as the economic zone but so far only valid for fishery).³ It entailed the introduction of a 200-mile exclusive economic zone (EEZ), according to United Nations Convention on Law of the Sea (UNCLOS). As fish do not know the borderlines of international waters, the two countries, and states that have received a Barents quota from one of them, may take part of this quota in the EEZ of the other. The proportion of catch between Norway and Russia is fixed (mostly 50/50) but the total catch is negotiated yearly. There have been disagreements over what is a sustainable catch in the area, where Russians have argued for higher catches than Norway. Those with a Barents Sea quota should accept Norwegian inspections (catch, size, etc.) in the Protection zone. Several countries deny the Norwegian interpretation of her rights in the area.

The “Loophole” is an area between Norwegian and Russian EEZs and the fishery protection zone around Svalbard, and is judicially international water. The Norwegian-Russian management system for fisheries has sought to include control of vessels also in this area. It is, however, a lack of clarity as to the authority to perform inspections in the area, and regulations must, therefore, be done through diplomatic channels to the countries where the vessels are registered.

Foreign and Security Policy

Access to petroleum resources, and energy trade and prices has had great significance both for the military systems and for the development of modern societies. The petroleum resources of the world are still found in countries with considerable political instability, with room for major market disturbances. For Norway, security political dimensions to the oil and gas activities have been particularly in focus in connection with the possibilities of production in the polar areas. For Russia, the continued great strategic significance of the Kola bases suggests that petroleum activity may seem negative for the operational conditions of her Northern fleet, and particularly for her submarines.

Submarines will more easily remain undetected, as noise from petroleum activities may be stronger. The larger submarines must pass between Bear Island and Norway because of sea depth. Activities in this area make it easier for submarines to pass to and from Russian Barents Sea. This can, of course, be a disadvantage and advantage to both sides. Platforms can be used for radar equipment, electronic warfare, and helicopter bases, meteorological and oceanographic data collection. With the consequences also for

surface vessels and aircraft, this may lead the Russians to adjust their strategy for their Northern fleet. They will most likely be negative towards any attempt at limiting their access to the Atlantic Ocean.

As Norway is a mouse compared to the Russian bear, it is necessary for Norway to co-operate with other countries in securing her interests. The question of Norwegian control becomes a central one. Obviously, Norway needs relevant military capability in this area herself, as a minimum for doing sufficient "policing activities" at sea and to remain credible to the Russians and other countries. States that are strategically vulnerable to a loss of Norwegian energy production, such as Germany and the UK, form a new resource for military assistance that might be exploited. Countries that receive Norwegian gas, along with the U.S. and its concern over global energy balances, share a clear interest in the shaping of Norwegian foreign and petroleum policy, and helping to secure the area. Joint military interests can also be developed with the Russians, except in those areas that are related directly to Norwegian-Russian controversies.

Security-of-Supply is in economic terms often a question of understanding the dynamics of the political economy of oil and gas. Norwegian policies are challenged domestically and internationally by Russia, the EU, EU countries and the U.S., in developing a way of understanding that is beneficial to security-of-supply for consuming nations, and at the same time also to Norwegian interests, so that Norway can attain a maximum sustainable price over time.

In developing a strategy to handle this situation Norway must anticipate the attention of other nations. As a Western European country, Norway is relatively isolated in her interests as a petroleum exporter, although she may find partners in several single areas. Developments in EU and EU countries as well as in Russia and other gas exporting countries are important. Gazprom as a single company and its position as a market leader is of great importance. Market developments and economic interests will have to become part of Norway's traditional foreign and security relations. This will also be expected from foreign companies and governments.

When Will Production Expand?

The geopolitics of Barents Sea energy must be understood in the context of how and to what degree the international economic and political system regards the area a petroleum producing region. Present high prices create the prospect of expensive field developments that in a low price scenario would not be profitable. Unrest in the Middle East and company interests in attaining profit, together with energy consuming countries' push for more energy and a desire to improve their security-of-supply situation, are heavily influencing domestic petroleum policies and contributing to a speeding up of field developments in both Norway and Russia.

Looking a decade or two ahead, energy diversification, improvements in energy efficiency as well as growth in production of renewable energy sources could change the present optimistic prospects for the huge reserves to be produced, to a pessimistic one. The Stone Age did not come to an end because there was a lack of stones. Hence, the development of the area depends not only on production cost and technology in a harsh and difficult climate, but also on international energy prices and policies, on bilateral relations between Norway and Russia, as well as on multilateral relations between these countries and the major powers in the world.

Consequently, there may still be time before offshore production expands substantially in the Barents Sea. With the ice melting going on in the area more sea becomes open. The challenges of global warming are in the Arctic areas not only environmental. Higher temperatures also open up for more oil and gas exploration. If high energy prices persists, the ice melting could contribute to a rush of companies and countries pushing for a speeding up of developments.

Footnotes

¹ See Stern 2005 for a comprehensive discussion of Gazprom positions and developments.

² An example: When the Norwegian petroleum industry was in its infant stage, Mobil was in 1973 assigned the role as operator of the huge Statfjord field, although it owned only 15 % of it. Statoil owned 50 % but did not, at the time, have the competence to do the job. However, in 1987, Statoil competence had improved to such an extent that the company (according to agreement) took over as operator of the field. The arrangement proved to be very important as part of building the Norwegian petroleum cluster (see i.e. Ryggvik 1997).

³ The Svalbard Treaty regulates fisheries in territorial (12 miles) and inner waters.

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