

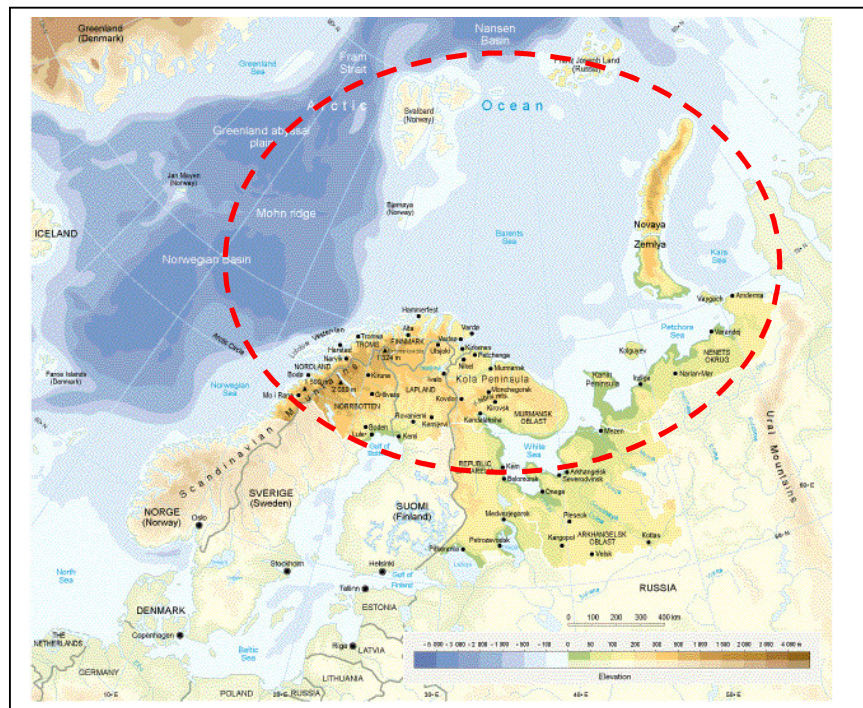
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The High North – Challenges and Potentials

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Introduction

The 'High North' is a loosely defined term, which in the context of this discussion includes the land territory of the European high north, including Svalbard and the adjacent sea areas – the Barents Sea. In these northern areas Russia and Norway have the dominant territorial as well as economic interests. There is both bilateral and multilateral co-operation, but also interest conflicts. The areas were during the Cold War largely seen internationally through the prism of security policy. During the nineteen seventies nature conservation issue also came to attention. Now the areas have re-emerged with a focus on hydrocarbon resources. They will become increasingly important for the energy supplies to Europe in the coming years.



Source: NOAA, National Geophysical Data Center 1988, GRID-Arendal 1995.

The purpose of this paper is to highlight the key political and management issues in the area and introduce for discussion challenges for Norway and its main allies.

Norway as an energy supplier to Europe

The Norwegian continental shelf constitutes approximately 30 per cent of Europe's total continental shelf. Production of petroleum started in the early 1970s and Norway is today the world's third largest net exporter of crude oil. Norway has become a major supplier of natural gas in Europe, and the Norwegian continental shelf is connected to the continent by several pipelines. France receives about 23 per cent of Norwegian gas exports, and Norway is the largest supplier of gas to France, covering one third of French gas consumption.

French companies have played an important role on the Norwegian continental shelf from the very start of activities. Total now holds shares in appr. fifty licences and operatorship in nine - one in a producing field - Skirne. In addition Total holds shares in oil and gas pipelines under the North Sea, in terminals for Norwegian gas on the continent and in gas plants in Norway. The large Frigg gas field has been the major asset, but this field is now under decommissioning and the company is exploring new opportunities. Gaz de France is a more recent arrival on the Norwegian continental shelf, but already holds shares in about 25 licenses. It has been selected as operator for the Gjøa field when it comes on stream.

Most of the Norwegian production takes place in the North Sea, where output is now peaking. During the last decade the biggest contribution to new resources has come from the Norwegian Sea. For future production the focus is increasingly on the northern part of the continental shelf, the Barents Sea. When output from the existing gas fields in the south starts declining, an extension of the pipeline network northwards is conceivable. Such an extension would fill up free capacity in the North Sea pipelines with Barents Sea gas.

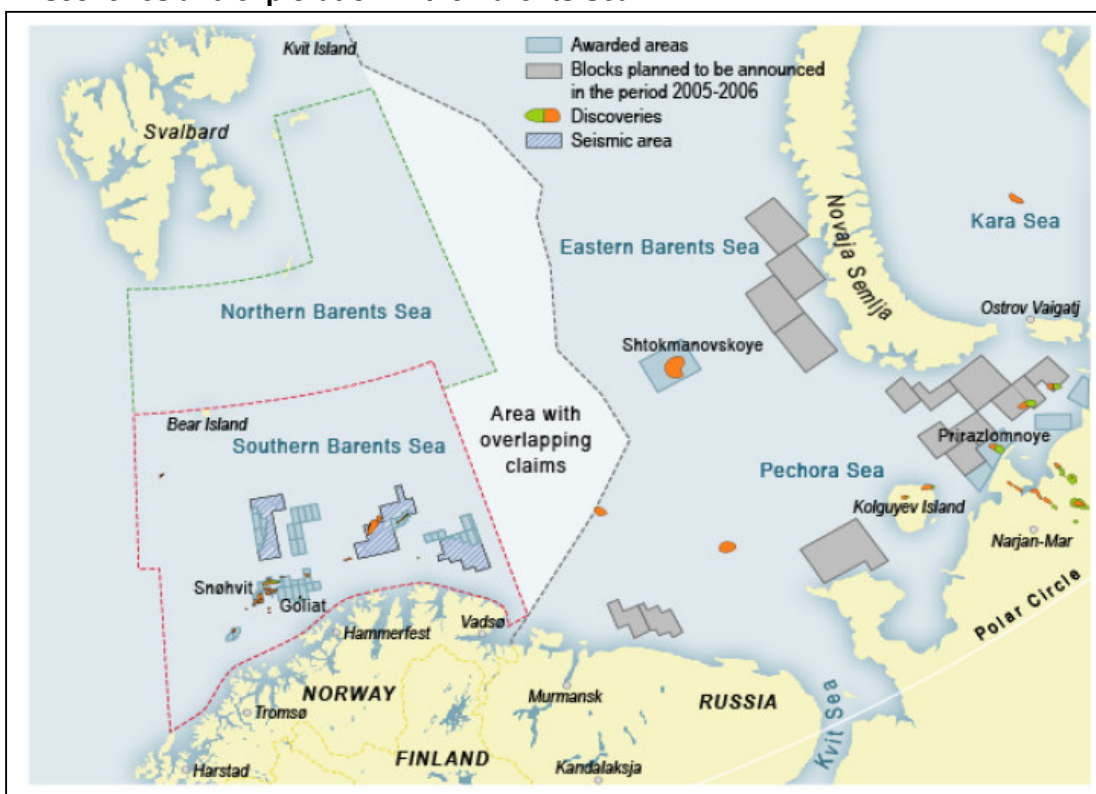
The High North as a future source of energy supplies

The process of opening certain areas of the Norwegian Barents Sea for petroleum production started in 1979, and the first exploration licenses in the Barents Sea were awarded in 1980. Several minor discoveries have been made, but only one field – the gas field Snøhvit (“Snow White”), which was discovered already in 1984, has been sufficiently commercially attractive for development so far. The exploration activity has not been very intensive and only 63 exploration wells have been drilled up till now. The assessment of undiscovered petroleum resources in the undisputed Norwegian part of the Barents Sea is about 850 mtoe (million tons of oil equivalents), of which one third is expected to be natural gas and two thirds oil. The degree of uncertainty is high, however, since many areas have not been explored yet.

In the Russian part of the Barents Sea, where seismic surveying started in the 1970s, three gas fields in the category ‘super-giant’ have been discovered, first Shtokmanovskoye, and later, Ledovoye and Ludlovskoye, in the north-western part of Russian Barents Sea. In the south-eastern part of the Barents Sea, which is usually referred to as the Pechora Sea, a large number of promising structures have been identified and some smaller oil fields discovered.

Also here exploratory drilling has been limited. Approximately 50 wells have been drilled in the whole undisputed Russian Barents Sea.

Discoveries and exploration in the Barents Sea



Source: The Norwegian Petroleum Directorate

According to Russian estimates there are 4,500 mtoe recoverable resources in the structures which have been studied in detail. This is more than remaining *reserves*¹ on the whole Norwegian continental shelf. The overwhelming part of these resources is natural gas, but the oil resources are also significant. There is considerable uncertainty regarding the Russian estimates, but there is little doubt that the resource potential is very substantial

Further East, in the Kara Sea, two more super-giant gas fields have been discovered, Leningradskoye and Rusanovskoye, adding huge volumes to the already enormous resource base in the Barents Sea.

In addition to the resources on undisputed Norwegian and Russian continental shelves, there is the possibility of finding petroleum in the disputed area between the two countries (see below). No drilling has yet been carried out in this area, but seismic surveying was conducted prior to 1982, when the two countries agreed to impose a moratorium on all exploration activities in the area. Most of the surveying had been carried out by Soviet organisations, and

¹ Note that these reserve/resource classifications are not directly comparable. (Norwegian) remaining reserves is a more strictly defined category than Russian recoverable resources.

Russian geologists have regularly voiced considerable optimism regarding the potential of the area. In recent years reinterpretation of old seismic data with new equipment and improved analytical methods seems to have reinforced the optimism, and various maps indicating a large gas field in the area have been circulated. But certainty cannot be achieved until drilling is done.

There is no doubt, however that on the whole the resource base in the Barents Sea is huge and that the Northern areas as here defined will come to play an increasingly important role as a provider of energy. There is, however, great uncertainty regarding timing and speed of development, as well as development concepts.

Industrial development

Offshore natural gas

The first field in the Barents Sea to come on stream will be **Snøhvit** (“**Snow White**”) in 2007. It will be the first large LNG project in Europe. The field is located 140 km north-west of Hammerfest. It took many years and technological breakthroughs to arrive at the development concept for the field. This field, with recoverable reserves of 161 bn scm, and 18 mill scm condensate, is being developed with subsea installations in water depths of about 300 meter. The gas will be piped to shore, where a processing plant is being built. From there the gas will be shipped as liquefied natural gas (LNG) in special carriers to market. The field is slated to produce approximately 6 bn scm annually. Of this 2.6 bn scm is contracted by Statoil for the U.S. market and 1.6 for Spain. 1.7 bn scm will be sold by the other main partners, Total and Gaz de France.

The **Shtokmanovskoye** gas and condensate field, located 650 km north-east of Murmansk and 540 km from shore, was discovered in 1988. It is one of the largest offshore gas fields in the world, with proven reserves of 3,200 bcm². This is about twice as much as in the Troll field in the North Sea, presently the biggest producing offshore gas field in the world. Shtokmanovskoye also contains condensate, 31 mill. tons, which enhances its commercial attraction. The technical difficulties in developing the field are substantial. The distance to shore, the water depths (some 280 to 380 m), drifting ice, and high waves pose problems.

The original development concept, which entailed a production volume of some 60-70 bcm per year and a pipeline to Western Europe never received sufficient support, mainly because less expensive gas was available onshore in Russia. The situation changed completely in 2003 when a new concept for development of the field was introduced – a “stand alone” LNG project with focus on the US market, which now was perceived as much more prospective than a few years earlier. The political emphasis on diversification of US energy supplies has also been helpful. In addition, technological breakthroughs have made development of the

² Note that the Russian definition of one billion cubic meters (bcm) of natural gas corresponds to slightly less than one billion standard cubic meter (bn scm), used in Norwegian gas production.

field and the world's biggest LNG project more feasible. Most major oil companies has shown interest in participating in the project and many of them signed MoUs with Gazprom who holds the license for the field through its subsidiary Sevmorneftegaz. In September 2005 Gazprom announced a short-list of companies for the final round of negotiations, consisting of ConocoPhillips, Chevron, Total, Hydro and Statoil. According to Gazprom two or three companies will be selected within half a year.

The concept under consideration now involves annual production of about 20 bcm. It would be the world's largest LNG project – by far. Subsequent phases may include additional LNG capacity and /or construction of a pipeline south. Annual output may reach 70-80 bcm.

An LNG project will not 'compete' with other Russian gas sources in supplying Europe. On the contrary, it will open up new markets for Russian gas, which is a pronounced strategic goal for Gazprom. Nevertheless, the development of the project is far from certain. A crucial issue is the future gas price in the US market, and the sharing of risk in this respect. Even if a group of cooperating companies is selected according to plan early next year, complicated negotiations remain before they can sign up.

If the project finally is realised, it will entail a construction phase of very large proportions involving suppliers from many countries and the presence of a host of new actors in the region. This development may come to crash with bureaucratic procedures and security structures in Northwest Russia. A recent illustration of this problem is the provisions included in a tender for geological studies in i.a. the Pechora Sea issued in October 2005: Only Russian companies may participate and foreign specialists can only take part upon consent by the Ministry of defence, in each individual case. The need for well-functioning administrative procedures and good relations between the Russian bureaucracy and foreign actors will be profound. For both Russian and foreign partners in Shtokman there will be a strong need to avoid disturbance in the development of such a capital intensive and time sensitive project.

Offshore oil production – Pechora Sea

The largest field identified in the Pechora Sea is **Prirazlomnoye**, located 57 km offshore, with water depth of 20 meters. Drilling on the structure started in 1989 and four wells have been completed. The field is believed to contain about 80 tons of exploitable oil reserves, sufficient to support an annual output of 7.5 mt annually. The technical challenges involved in constructing a platform at the Sevmash submarine yard in Severodvinsk outside Arkhangelsk have been bigger than anticipated and the project has been delayed several times. It has also proven difficult to attract sufficient financial resources to the project. Several foreign partners have been in and out of the project, including Australian BGH and German Wintershall AG. Others have been invited, but have declined, also the Norwegian companies, finding the project too risky and/or not commercially attractive. Presently the project is being developed by Gazprom's subsidiary Sevmorneftegaz who will use a decommissioned platform deck

from the North Sea placed upon the platform base under construction at Sevmash. New delays have been reported this year, making 2007 the earliest possible start-up date.

The Russian Natural resources ministry maintains that oil production in the Pechora Sea could reach a level of 50-60 mill. tons by 2020, provided that a series of new fields are developed. As of today there is a big discrepancy between such goals and the very slow licensing process seen so far. Plans for a series of licensing rounds, including 16 combined exploration and production licenses, in the Russian Barents and Pechora Seas were disclosed four years ago, but the plans have not been implemented. It is, however, not unreasonable to expect announcement of a licensing round after the anticipated adoption of a revised law on underground resources by the end of the year.

Onshore oil production – Timan Pechora

Very significant oil fields are under development or already in production onshore in the Timan Pechora petroleum province (a geological term) which includes Nenets autonomous district and the northern part of the Komi republic. According to Russian geologists the oil reserves (A+B+C1+C2) in this area constitute some 1, 900 mill. tons. In addition, there are smaller gas finds. As of today the annual output from the region is about 20 mill tons. This region has for some time seen the presence of foreign oil companies. ConocoPhillips is running a joint venture with the Russian state owned oil company Rosneft, producing some 0.6 mill. tons of oil in 2004. In 2005 the American company established a joint company with Lukoil – Naryanmarneftegaz – to develop more substantial resources in the northern part of Timan-Pechora. Total has a 50 per cent stake and is operator in the Kharyaga field, Norway's Hydro has 40 percent, and Nenets Oil Co. 10 percent. This project has been embroiled in a conflict over taxes, but the plan is to increase output to 1.5 mill. tons per year.

According to plans from Russian oil companies with licenses, the output in Timan Pechora will increase to 35-40 mt by 2010 and 44-45 mt by 2020. All the increase will come from Nenets. The oil produced will partly be channelled through the existing oil pipeline connecting it to the integrated pipeline grid and to ports on the Baltic Sea (which is the dominant channel today), and partly through outlets along the northern coast.

Terminals and pipelines

Over the last few years shipments of oil and oil products from various sea terminals in the Russian north have increased rapidly. As late as 2001 there were hardly any such shipments, while in 2004 they amounted to almost 12 mill. tons. The main explanation for this development is the combination of increasing oil production, stagnant domestic consumption and bottlenecks in export pipelines. Russian oil companies have found it profitable to refine crude oil and transport the products on rail to ports along the White Sea. Some crude has also

been transported by rail. Even though the profit margin is much smaller than in regular pipeline exports, the oil has no alternative more profitable outlet in the short term.

In addition, crude oil in increasing volumes is being shipped out from northern fields in Nenets autonomous district, as mentioned above, as well as from remote fields in the northern part of West Siberia. Most of the harbours used are only accessible for smaller tankers 20-40,000 Tdw. An increasing portion of the oil is being reloaded into larger tankers near Murmansk. Altogether this traffic translates into some 300 ship movements along the Norwegian coast as of 2004. The oil transportation through the Barents Sea and along the along the Norwegian coast has raised considerable environmental concern in Norway (see below).

Plans for a major trunk oil pipeline from West Siberia to Murmansk were launched by Russian oil companies in 2002. The line would ultimately take up to 100 mill. tons and the realisation of the plans was taken more or less for granted by many observers in the West. Inside Russia, the pipeline was controversial, though, and the plans were met with strong resistance from the state pipeline company Transneft. In 2004 the plans were shelved. Transneft launched another alternative - a shorter line to Indiga on the Arkhangelsk coast. The volumes would be smaller – some 50 mill. tons. – and the harbour less accessible for super tankers. At present neither this project is given high priority, but this may change.

However, even without a major pipeline the region is becoming an increasingly important node for oil supplies. Together with development of major offshore gas projects, this is likely to give the region new geopolitical significance. This importance is of course also influenced by developments in other important energy producing areas in the world. Continued instability in the Middle East contrasts with the present situation in the North.

Political issues

During the Cold War the primary focus in the north was on security issues. The Soviet Union concentrated its largest naval fleet at bases along the Kola coast, due to favourable, ice free harbour conditions combined with relatively open access to the world oceans. The submarines of the Northern fleet constituted a key component of the USSR's nuclear deterrent. Correspondingly, the sea areas were patrolled by US submarines and NATO intelligence aircraft and ships. Norway welcomed the deployment of allied naval forces, which also was seen as a protection of Norwegian interests in jurisdictional disputes with the USSR.

The region is still home to a very sizeable fleet, but the activity level has dropped drastically since the dissolution of the USSR and the lessening of east-west tensions. The US has curtailed its forward based operations. Security and military issues are not longer a main focus, but they nevertheless constitute an important factor in developments in the region.

Regional co-operation through the Barents Euro-Arctic Region (BEAR) was a bold move, initiated by Norway in 1992. The region encompasses the Northern counties of Norway, Sweden and Finland as well as five north-western subjects (regions) of the Russian Federation. The EU Commission is a full member of the highest organ, The Barents Council, along with the BEAR countries plus Denmark and Iceland. Nine countries, including France, have observer status. In practical terms BEAR has become a framework for numerous co-operative projects on the regional level, primarily people-to people projects in the social, cultural and environmental spheres. The sea areas are excluded from BEAR projects due to the jurisdictional dispute. The BEAR has so far not been a forum for discussion of larger developments in the region where national interests are at stake and where the sea areas are of most concern.

Environmental and resource management concerns

A very important part of Norwegian thinking about the High North is the vulnerability of the northern environment. The environmental concerns in the area include preservation of wild-life and biodiversity as well as pristine nature, but they are also connected to concrete economic interests: the Barents Sea fisheries. The Barents Sea is one of the most bioproductive seas in the world and has very rich fishing grounds, especially for the highly valued cod. Environmental and fisheries interests fear that pollution and spills related to petroleum activities will have a serious negative effect on biodiversity and fish resources and reduce the catch or lower the value of fish from the Barents Sea. These fears are substantiated by results from marine research institutions and experience from other areas of the world.

For these reasons development of Norwegian hydrocarbon resources in the North has been cautious. Concern for the environment and for possible impact on fisheries has limited the scope of exploration – in terms of acreage and time periods. There is a continuing heated debate about which areas shall be opened for exploration and development. A new assessment report on the impact of petroleum activity in the Barents Sea was prepared in the period 2002-2003. Based on this assessment the Norwegian government in 2003 decided to continue petroleum activity in the previously opened areas in the southern part of the Barents Sea, with the exception of some particularly vulnerable areas. Stricter environmental regulations than elsewhere on the Norwegian continental shelf are applied in the areas where petroleum activity is allowed. The Norwegian government is also preparing a comprehensive plan for integrated management of the Barents Sea, to be finalised in 2006, which aims at reconciling the various interests and concerns involved. The plan is intended to be in line with international treaties and processes stressing the need for integrated resources management and environmental considerations in sea areas. One of the most politically sensitive issues here are the establishment of “no-go” areas, either PSSAs (Particularly Sensitive Sea Areas) according to IMO standards and guidelines, or other categories of marine protected areas where oil exploration will not be permitted. This overall management plan will be an important determinant for the further opening of new areas for exploration and production. It

should nevertheless be noted that the Norwegian government has explicitly stated that the process does not aim to open the *northern* part of the Norwegian Barents Sea for petroleum activities.

A more immediate threat to the environment and fisheries is seen from possible oil spills from the increasing traffic of oil tankers outside Norwegian territorial sea. Measures to control the traffic have been explored, notably the possibility of establishing one or more PSSA's. The extension of the territorial sea from 4 to 12 nautical miles from 1 January 2004 was also carried out basically due to these concerns. Maintaining high ship standards is another important issue, where processes within the EU are highly relevant. Recent analyses indicate, however, that the standard of ships transporting Russian oil through the area is generally high.

Until the oil shipments started to grow rapidly a few years ago, the perceived major environmental threat in these areas was accidents involving nuclear installations, decommissioned nuclear submarines and weapons, as well as handling and storage of spent nuclear fuel. These problems have not been solved, but they have been an area of relatively fruitful international co-operation, and are now under better control, and the perception of the problem has changed. The nuclear issues pose a *potential* threat, not a large, current environmental problem. Radioactive contamination of the ocean is very low.

Seen from Norway it is obvious that the major environmental threats emanate from activities on the Russian side. Norway has no direct control over these activities, but development of contacts and co-operation with the Russian side, both through Arctic Council, the BEAR and bilaterally, both on the regional and central level is used to develop a joint understanding of environmental challenges, as well as measures to increase the safety of offshore operations and transport. But for Norway it would clearly be desirable to have a broader international alliance and consensus about the special environmental concerns and challenges in the region.

Russia has many of the same interests as Norway with regard to protection of the environment and resources in the North and has proclaimed the importance of environmental considerations. Russia has a well established system of environmental impact assessments for all kinds of industrial projects, and it has environmental regulations that in several instances are stricter than in Norway. The impact assessments are, however, usually carried out at a late stage in project development, and Russia lacks a more integrated approach in planning before individual projects are developed. Questions have also been raised with regard to *compliance* with extensive and complicated laws and regulations. Russian authorities have signalled a willingness to discuss improvements in the the legal and institutional framework, based on experiences from other countries.

Fisheries

Norway and Russia has a long-standing co-operation in management of living resources. The Russian–Norwegian management regime for the Barents Sea fish stocks was established in connection with the introduction of the 200 mile exclusive economic zone (EEZ) in 1976. Since the fish stocks traverse national borders, the resource is managed jointly for the whole Barents Sea. Under a Mutual Access agreement, vessels from the two coastal states may take a certain part of their quota in the EEZs of the other. The same is true for third parties who have received quotas from Norway or Russia. Whereas the total catch of various species is negotiated on a yearly basis, the two countries' proportion of the catch is fixed. The quota for the two most important species, cod and haddock, is divided fifty/fifty.

A Norwegian–Russian Barents Sea enforcement system has been in place since 1993. During the 1990s, the joint Russian–Norwegian fisheries management was generally considered successful. But at times there has been disagreement about the size of total catch. Also, there is increasing concern about illegal fishing. According to the Norwegian Fisheries directorate, in later years such fishing constitutes about 100,000 tons annually – or 25 per cent over the quota for 2005. The problem was highlighted recently in the affair with the Russian trawler *Elektron* (see below).

Proper management of the fish stocks is not only in the short term interest of Russia and Norway. It also concerns long term food supplies to several European countries. But the question of access for fishermen from European countries to these waters has been heated. In the latest round of the bilateral negotiations some 15 per cent of the cod quota was set aside for third countries.

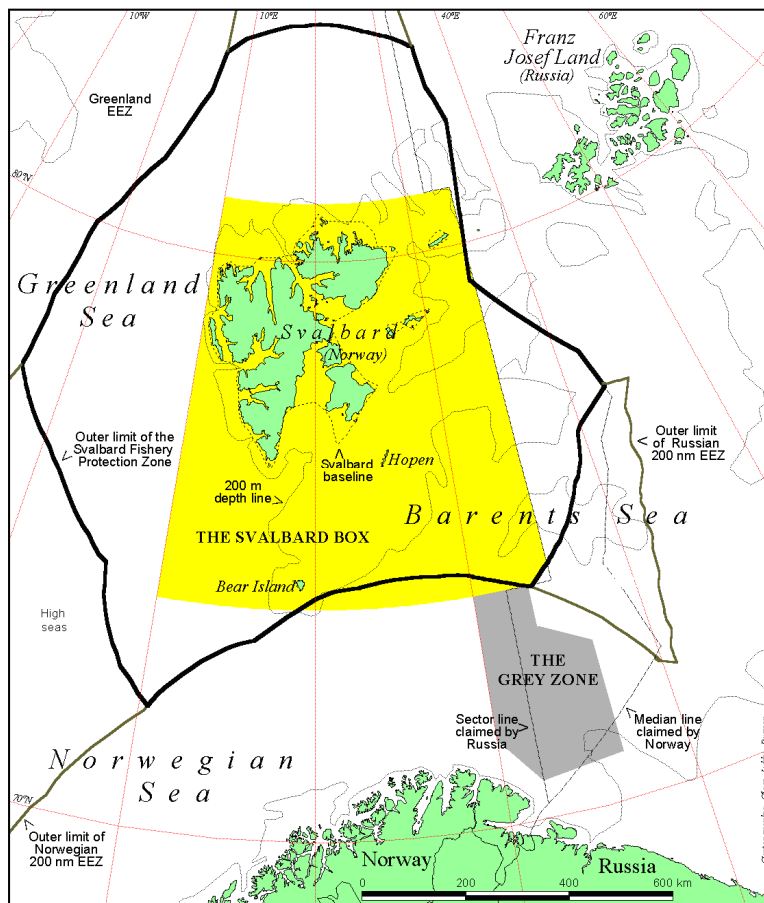
Jurisdictional issues

The disputed area.

Norway and Russia have still not settled their disagreement over the marine *delimitation* of the exclusive economic zones (EEZ) and the continental shelf in the Barents Sea. Norway supports the equidistance or median line principle, and Russia argues the sector line principle. At stake is a disputed area of some 176,000 square kilometres. In the negotiations, which have gone on for 35 years, the Russian side has argued that Norway and Russia could establish a co-operative regime for exploitation of hydrocarbon resources in the area – before a delimitation line is drawn. The Norwegian position has been that co-operation in exploration and production can only be established once a firm delimitation line has been drawn. These positions are not easy to reconcile, but in recent years the two sides have been discussing possible co-operation schemes hypothetically, schemes that can be implemented once a delimitation line is agreed upon.

An interim arrangement for parallel jurisdiction over fisheries in the disputed area, until a delimitation line could be drawn, was established in 1978. The resulting 'grey zone' partly overlaps with the disputed area but also contains a section from undisputed Norwegian zone as well as a small section from the Russian zone. The arrangement has been renewed on an annual basis. In the grey zone Norway controls its own fishermen and vessels with licenses obtained from Norway, whereas Russia controls Russian vessels and third party vessels fishing on licenses issued by Russia.

Borders and claims in the Barents Sea



Svalbard

The Svalbard archipelago (Spitsbergen) has been under Norwegian sovereignty since the Spitsbergen Treaty of 1920 entered into force. But even though Norway was granted “full and absolute sovereignty” over the archipelago, the sovereignty came with some qualifications.

Norway cannot discriminate subjects of other signatories when it comes to most forms of economic activity on the islands, and she cannot enrich herself by imposing higher taxes than needed for the administration of the islands. In reality Norway has subsidised administration of the islands substantially.

Whereas the treaty defines the archipelago within geographical coordinates, it says nothing about the sea areas beyond territorial waters and the ocean floor. The reach of the provisions of the Spitsbergen Treaty is a matter of controversy. Norway holds that the limitations on Norwegian jurisdiction in the Spitsbergen Treaty do not apply to the sea areas and continental shelf around Svalbard outside the territorial sea, now 12 nm, and that the zone and the seabed are subject to unrestricted Norwegian jurisdiction. This interpretation rests on the principle that limitations on sovereignty in international treaties shall be interpreted within the ordinary meaning of the text or restrictively. In Norway's view the continental shelf around Svalbard is a continuation of the continental shelf of mainland Norway, and Norway could establish an ordinary 200 mile exclusive economic zone (EEZ) around the islands, if it wanted to.

Some signatory states have reserved themselves against the Norwegian interpretation of the treaty, and a few have protested, holding that treaty restrictions apply beyond the territorial sea, and that the archipelago is entitled to its own economic zone and continental shelf – to be governed in the same way as the islands themselves. Russia's position is that the waters around Svalbard are international, whereas the shelf should be subject to the provisions of the Spitsbergen Treaty.

As a practical solution for regulation of fisheries and to avoid dispute about the interpretation of the Spitsbergen Treaty Norway established a fisheries protection zone with non-discriminatory regulations in the area in 1977. This solution has to a large extent worked well in practice. Vessels with a Barents Sea quota accept Norwegian inspections of catch and mesh size etc. and in general respect fisheries regulations, such as temporarily closed areas. This includes Russian vessels, but the latter have refused to sign the inspection protocols. It should be recalled that for Russian and Norwegian vessels there are no special quotas for the Fisheries protection zone. Vessels are fishing on quotas for the whole Barents Sea.

There have been some incidents though, involving Icelandic and Spanish vessels and notably also Russian vessels in later years. In 2001 a Russian trawler was for the first time arrested and brought to a Norwegian port. This led to vocal Russian protests. Russian authorities maintained that Norway had no right to arrest a vessel in what they term international waters. A similar episode occurred in October 2005 when a Russian trawler was arrested but fled the Norwegian coast guard and escaped into Russian territorial sea with two Norwegian inspectors on board. The Russian foreign minister reiterated the official position on jurisdiction in the fisheries protection zone, but otherwise the official reactions were subdued, in sharp contrast to reactions from the fisheries sector in Murmansk against what was termed an unjustified infringement on their rights. But Russia faces a dilemma here since Russian fishermen are the most active in the zone, and about a quarter of the country's Barents Sea

quota is taken there. Consequently, Russia would have much to lose if Norwegian jurisdiction was undermined.

The disagreement about the regime for the continental shelf around Svalbard has not become heated since it is uncertain whether there are promising geological structures for oil and gas deposits there at all. Little is known because very limited seismic surveying has been carried out. The *potential* conflict is not about Norway's sovereign rights, but about the basis for Norwegian jurisdiction: the modern Law of the Sea – providing the coastal state with extensive rights, or the Spitsbergen Treaty - with its limitations on Norwegian jurisdiction, as described above.

Even though Norway has found little support for the principle of unrestricted Norwegian jurisdiction on the shelf around Svalbard, the alternative – a shelf regime based on the Spitsbergen Treaty – would not necessarily be attractive for other states. The Spitsbergen Treaty and the accompanying Mining code are very crude legal instruments and do not provide a sufficient basis for sound resources management and resolution of conflicts between interested parties. The potential for conflict with other parties would make engagement in the area very risky from a commercial point of view. Operations under these conditions could also become internationally unacceptable for environmental reasons.

There has so far not been much in the way of concrete challenges to Norwegian authority on the continental shelf. But in 2003 and 2004 a Russian geological company carried out seismic surveys on the continental shelf around Svalbard on behalf of the Russian Ministry of natural resources. Norway granted permission for the surveys as 'scientific research' in accordance with the Law of the Sea convention. The purpose of the expeditions has, however, i.a. been to identify prospective zones for oil and gas accumulations. This brings them into conflict with the Norwegian ban on exploration for petroleum in the area.

Even if the legal arguments over the continental shelf around Svalbard collide, and there are underlying competing material interests between various signatories to the Spitsbergen Treaty, there are also some common concerns. One would expect all parties to have an interest in an effective management of the sea areas and ocean floor around Svalbard, to avoid conflict between operators and to protect the environment. On fiscal issues parties differ, however. Other parties than Norway would be happy to see a regime where the government take was small, such as the case is on the Svalbard islands.

It remains to be seen how acute these issues will become. Much will depend on expectations for the resource potential. If expectations are high, pressure on Norway to open the Northern Barents Sea shelf must be expected. But in practice it is difficult to imagine extensive commercial activities on the shelf around Svalbard without Norwegian consent, since presumably interested states as well as companies will need some form of administration of activities there. As argued above the Spitsbergen Treaty does not form a sufficient basis for

such an administration. This overview suggests that there is a room for give and take between interested parties.

Interests and actors

The constellation of actors and interests in the North has become more complicated than during the cold war. The state actors have more varied and diverging interests, and non-state actors play a more prominent role.

Norway has had problems developing a consistent policy for the High North. Various interests and concerns draw policy in different directions: Regional development of the North, the offshore industry, the fisheries, environment, security. A White Paper from the government in April stressed the need for an integrated approach without really solving the existing contradictions in Norwegian policy.

The disputed area with Russia remains a major concern, but is not an over-arching problem. Resolution of the delimitation dispute would mean that a promising area could be opened for petroleum activities. It could also be argued that a solution would add stability to the whole region and make investments more attractive. Norway of course has its own economic interests to look after, but is at the same time concerned about establishing a stable situation where not only Russia and Norway are players.

Norway is strongly interested in seeing that environmental safeguards are given high priority in petroleum development in the North, field development on its own as well as the Russian continental shelf and also in transportation of oil. While she cannot directly affect developments on the Russian side, improvements in Russian policy and regulations can be supported. The Norwegian oil industry argues that the most efficient way of influencing Russia is to show by example how it can be done, i.e. by developing Norwegian fields in the north under similar circumstances as on the Russian shelf.

But as mentioned earlier, a broad international consensus about environmental challenges, standards and requirements would be desirable.

It is difficult to pinpoint *Russian* state interests and priorities with regard to the High North. There has been no strong push to develop offshore resources, despite occasional mentioning of the resources in the context of regional development. Northern towns and regions have had big problems finding their footing in the new economic realities of Russia. Development of the energy sector is regarded as one of few alternatives for economic development.

Until now the offshore resources have been treated as a long term reserve – (onshore developments have been more energetic). The military used to be a major brake on developments offshore. They have been weakened and are now also more nuanced in their

attitude, still they have an important say in offshore development and are considered to be sceptical against an extensive foreign presence. Also civilian authorities have not wanted foreign companies to become dominant actors on Russia's northern continental shelf; they have wanted Russian companies to develop sufficient competence to be in control of offshore operations. But the Russian oil companies have shown little interest and exerted little pressure on the authorities to speed up licensing offshore, being busy onshore. They are, however, likely to mobilise if one company signals an interest. The next test of interest will be the second licensing round in Russian Barents Sea, which has been postponed several times.

The Shtokmanovskoye project seems to point in a different direction. For a long time the project only enjoyed token support. Now there seems to be a congruence of geopolitical interests and commercial initiative. And the Russian player is a state owned company. The market potential for LNG from the Barents Sea may also increase the Russian interest for the disputed area. If this area contains large gas deposits, as the speculation goes, it may be easier and less expensive to develop a field there than Shtokmanovskoye.

There have been speculations in Norway about the possibility of Russia trying to link delimitation talks with the question of access for Norwegian companies to the Russian shelf. Such speculations are inspired by the Russian track record as well as more recent references to a special broad-based relationship.

The renewed *US* interest in the North is undoubtedly connected to energy supplies. Diversification of supplies away from the Middle East and an increased role for natural gas have become major themes in US policy and the US government gives political and some economic support for development of new supply options. Thus, both the Shtokmanovskoye project and oil shipments from Northwestern Russia have been discussed on the highest level and been topics in the US - Russia energy dialogue. But even if the US government has an interest, the more concrete decisions rest with private companies.

The question has been raised about the impact on the delimitation issue of a strong US interest in the development of new supply sources in the area. Will US policy necessarily be in line with Norwegian interests? The US might put pressure on Russia to come to a solution on the delimitation issue to get the disputed area opened up for exploration. But it could perhaps also have the opposite effect. If Norway is regarded as a brake on petroleum development in the North, the US could put the pressure on Norway instead, to get a settlement that would allow opening of the area.

With the introduction of the Northern dimension *the EU* signalled an interest in developing a comprehensive northern policy. But initiatives have tended to be directed more towards the Baltic region, which is outside the scope here. However, on several occasions, an interest in developing hydrocarbon resources and energy transport infrastructure in the North has been pronounced, and has become a part of the policy to diversify petroleum supplies. With the

negative experience from oil spills in Europe in recent years, the emphasis on environmentally safe operations in the North has been strengthened.

From a European perspective the stable supply of Russian gas is a factor of paramount importance. Russia covers approximately about a quarter of French gas consumption and more than a third of Germany's. It has high market shares in Italy too, and totally dominates the gas market in Finland and East and Central Europe. Even though supplies until now have been ample, there are signs that Gazprom has problems keeping up production. The company's difficult financial position, caused by its responsibility to maintain the huge integrated gas pipeline system and supply domestic consumers without being permitted or able to cover costs, is of increasing worry. 'Independent' gas producers are necessary to keep up and especially increase the production level. In this perspective reserves closer to Europe become more important than earlier.

Petroleum resources in the High North are clearly important for future energy supplies to Europe. The main partner will no doubt be Russia, but cooperation with Norway can also be a factor helping achieve a safe and predictable development, beyond the importance of supplies from the Norwegian continental shelf. For Norway it is essential not only that the environmental concerns in the north can be well understood also in the EU, but also that Norway's broader role in resource management in the North is seen as helpful.

Western oil and gas companies are increasingly eyeing the European north for new reserves and commercial opportunities, and are emerging as a driving force that may shape the future of the region. Their level of interest and involvement, as well as their strategies, vary considerably, however.

Norwegian companies are among the most eager. Both Statoil and Hydro see the Barents Sea as a core area of their operations, including both the Norwegian and the Russian side. Both companies possess advanced offshore technology.

Of the American companies by far the most ambitious in the area is ConocoPhillips. It has bought a stake in Lukoil and the two companies are setting up a joint venture in Timan-Pechora. ConocoPhillips is also eagerly courting Gazprom on Shtokmanovskoye. ExxonMobil and ChevronTexaco, as well as their European counterparts Shell and BP have so far focused primarily on the Far East, but are likely to watch recent developments with increasing interest.

Among the European companies, Total is the one most heavily involved – both on the Norwegian and Russian side, Snøhvit and Timan-Pechora, and is on the short list of potential partners in Shtokmanovskoye. Gaz de France, ENI, RWE Dea and BG Group have so far

mainly involved themselves on the Norwegian part of the shelf, while E.ON Ruhrgas is close to Gazprom and may thus be well positioned if and when Gazprom steps up in the Barents Sea.

Companies are of course not only important as direct actors. They are also influencing government policies. At the same time they are – to varying extent - being influenced by governments in their home base countries. With the operative limitations of the Cold war long gone, it is a major question how companies perceive the legitimacy of constraints emanating from jurisdictional disputes and environmental sensitivities. This is a crucial issue for a small country with vast territorial and economic interests in the region.

Bilateralism and multilateralism

There is no doubt that further development of the bilateral relations between Norway and Russia, both regarding good fisheries management, environmental conservation and safety standards for exploitation and transportation of oil and gas, will be essential for sustainable resource management in the North. Norway has, however, traditionally been reluctant to arrangements that would leave Norway alone with its big, powerful neighbour. To balance this increased relationship with Russia, and in line with its general support of multilateral arrangements, the Norwegian government, both the old and the new, has argued for the need to develop further alliances with its traditional allies to find solid, political common ground with regard to developments in the North. It would maybe too strong to term this policy a multilateralisation of resource management, but clearly there is a new will to discuss openly issues that have hitherto been regarded as very sensitive.

But as shown in this report, it is clear that also western countries might have conflicting interests in the North. Further clarification of interests, priorities and objectives and increased political dialogue is necessary to achieve a mutual understanding of what it takes to secure sustainable managerial and political solutions and to maintain the stability and calm in the area. This goes for all the western allies, but also for Norway itself.