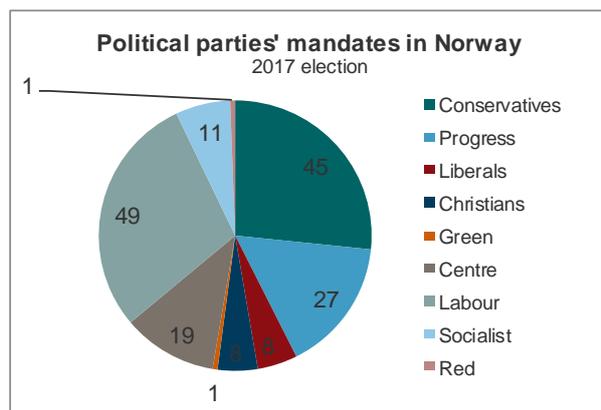


# Norwegian climate politics and the oil industry

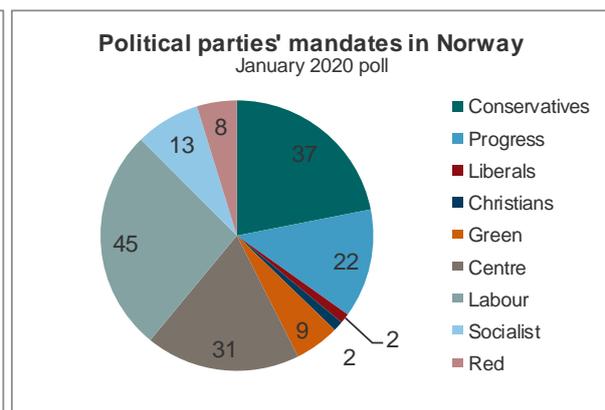
On Monday the 20<sup>th</sup> of January, the Progress Party decided to quit Norway's government to become an independent opposition party. This has led to questions about how this, and other political trends, might affect the government's policies and the outcome of the 2021 general election. In addition, more youth wings of the main political parties are expressing climate-friendly policies these days, putting pressure on the mother parties to change focus coming up to the 2021 election. This note offers an overview of the political spectrum in Norway and the debate regarding oil investment and production on the Norwegian Continental Shelf (NCS).

## The Norwegian political system and its parties

The Norwegian political system is organised as a parliamentary democracy with an election every four years. The next election is due to be held in September 2021. It is not possible, by constitution, to dissolve parliament and hold new elections between the ordinary elections in Norway. The parliament (Stortinget) has 169 seats, thus it takes 85 to form a majority government. In 2013 the Conservative Party and the Progress Party formed a minority government led by Mrs Solberg with support from the Liberal Party and the Christian Democratic Party. After the 2017 election, the Conservative Party (45 seats), Progress Party (27), Liberal Party (8), and Christian Democratic Party (8) still had a majority in the Parliament. In January 2018 the Liberals joined the government and on 22 January 2019 the Christian Democrats also joined in. This majority government, still led by Mrs Solberg, based its governing on the so-called Granavolden-platform. On Monday 20 January 2020, the Progress Party decided to leave the governing coalition due to disagreements over several issues. The trigger was the decision to bring home an Islamic State wife and her two children. The Progress Party stated it would operate in accordance with its party programme going forward, but also said it preferred a Solberg-led government. The remaining government will, for the time being, continue to follow the prioritisation of the Granavolden-platform.



Source: pollfopolls.no



Source: pollfopolls.no

## Consequences of different political orientation for public spending

Unlike in many other countries, there seems to be a broad agreement between the political parties in their views on how much money to spend through the fiscal budgets in Norway. This has to do with the fact that Norway runs a budget deficit financed by the returns on the Government Pension Fund ("the oil fund"). In 2001, the parliament approved a budgetary rule governing how much to spend out of the capital gains from the fund. All, except the Progress Party, voted in favour at the time. In 2017, all parties including the Progress Party, voted in favour of reducing the spending rule from 4% to 3%. This means that there is full support for the spending rule in Norway.

While the size of the budget has been more or less independent of election results historically, the budgetary prioritisation has been subject to far more debate. This is also evident when it comes to the political parties' attitude towards further investment in oil production, how much to produce, and when to shut down. However, to the extent the returns on the oil fund are unaffected by political decisions on further oil production, it is likely that future Norwegian governments will have the ability to keep funding a budget deficit with returns from the oil fund. This means that Norway would be likely to have a large public sector, health care, education, and generous unemployment benefit system after the oil age is over.

## The current government's climate politics

According to the Granavolden-platform, the government will keep a stable long-term view on the petroleum sector, with continued exploration of new fields that can secure future production and oil export as an important part of Norway's economy. In the platform, climate risk is seen as a risk that to a large degree must be considered when making profitability analyses of new projects. Other than that, the platform does not explicitly address Norway's role as an oil supplier in relation to climate politics. The climate politics related to the oil and gas industry expressed in the platform mainly states measures to reduce emissions related to the public sector as

users of oil and gas. Examples of such demand-side policies include the goals of emission-free public transport by 2025, electrification of the NCS, and emission-free harbours by 2030.

The Progress Party was, as a member of government, a firm supporter of the oil industry. Its exit from government does not seem likely to change this. Furthermore, the government has decided to keep following the Granavolden-platform. It is likely that the Progress Party will continue to act supportive of the oil industry outside government, as it has stated that it will follow its party programme. Therefore, we do not expect the Progress Party's exit from the coalition to have an impact on policy related to the oil sector in the short term.

### The political discourse about the future of the oil industry

The public discourse about climate action has in recent years developed into a discussion about the Norwegian oil and gas industry. Even though the composition of the parliament has varied over time, the overall framework for Norwegian petroleum policy has remained stable for many decades. There has been broad political agreement amongst Norway's two largest parties (Conservatives and Labour) on the principles of petroleum policy, which has provided the industry with a predictable and stable framework. Now, the different political parties' take on climate action could become a key distinguishing factor for voters in the upcoming general election in 2021. So far the debate can be boiled down to a couple of central questions about exploration policy, and on setting an "end-date" for petroleum activity. See Table 1 below for our overview of the different parties' take on these issues, as stated in their respective party programmes, and the likely vote distribution.

The Norwegian Petroleum Directorate (NPD) estimates that only 48% of total resources on the NCS have been produced. However, the level of investments will probably start to level off in 2021, and activity will eventually slow as the NCS matures. On the shelf there are still large unopened areas that could be approved for exploration. Furthermore, there are still significant opened areas that have not been explored. According to the NPD, the exploration activity was high in 2019, with 57 exploration wells were spudded. In 2020, 50 wells are expected. The current situation suggests that there will be continued activity on a high level in the coming years. The political debate regarding future exploration has three questions attached to it.

- 1) Should the government open up new areas for exploration?
- 2) Should the government permit companies to start/continue exploration in already open areas?
- 3) Should the government continue established tax incentives for exploration?

1) Whether or not to open up new areas relates to two specific areas where oil and gas could be expected to be found, but where biodiversity and environmental concerns have spurred protests against exploration and potential production:

- The environmental impact assessment of the three large areas around Lofoten, Vesterålen, and Senja (Nordland VI, Nordland VII, and Troms II). The environmentally friendly side proposes to protect these from all forms of oil industry in perpetuity, while the oil sector would like to explore or at least conduct a descriptive survey.
- The so-called 'ice-border' against the Arctic ice. This is a set border regulating how far north the oil industry is allowed to have activity, to avoid disturbing biodiversity along the moving ice-border of the Arctic. The debate relates to how this border should be determined. **According to the Granavolden-platform, the government will propose whether to change or keep the existing border during the spring of 2020, based on a report by experts.**

Note that whether these areas are protected or not does not have any impact on the activity on the shelf in the short to medium term. First: the government has stated that it will not retract granted permissions if the ice-border were to be moved. Second: There has been high interest in current exploration acreage, and many discoveries, even without the opening of Lofoten, Vesterålen, and Senja. Continued exploration, investment, and development of new fields can carry on for a long time without opening them. The risk potential is thus on the upside, as these areas could give an extra boost to the economy if they were to be opened at a later stage. With new technology that better protects nature, these areas could become more attractive for exploration than they are today.

2) The question of continued exploration in already-opened areas carries much larger consequences economically and is therefore less up for debate. As mentioned, 50 exploration wells are expected to be drilled in 2020. While a full stop to continued exploration seems highly unlikely at the present date, such a policy would presumably remove all exploration spending, the jobs associated with exploration, plus indirect effects from lower demand and activity throughout the value chain. In 2018, exploration spending was roughly 1% of mainland GDP.

3) Related to continued exploration is the reimbursement system for exploration costs. Initiated in 2005, the scheme allows firms without taxable income to receive cash tax refunds for exploration costs related to dry wells. In principle, the scheme is tax neutral, and was initiated to ensure sufficient competition on the shelf, allowing smaller companies to perform exploration in line with more established ones by removing entry barriers. While the system is not a subsidy, it leaves the Norwegian state with a larger share of the credit risk associated with exploration. The system has been successful in allowing smaller companies to enter. In 2019 there were 12 small and 20 medium-sized companies compared to 7 and 11 in 2005, respectively. Removal of the reimbursement

system is likely to signal the end of exploration for companies that currently benefit from it, unless they are able to find other ways of funding their activity. While a part of the decrease in exploration could be replaced by other companies, the loss of smaller companies reduces competition and diversity on the NCS. Fewer companies with new ideas could mean less innovation and development of exploration technology, in addition to spillover effects on related industries. Finally, removal of the reimbursement system goes against the current policy aiming to provide stable conditions for companies that invest and operate on the NCS. Removal of the reimbursement system could be taken as a sign that conditions are no longer stable, which could dampen future investment.

The most far-reaching question in the oil debate is whether there should be a 'fixed end date' for the oil industry, i.e. regulate and perform a controlled phase-out of investment and activity to stop production by a certain date. However, this is a complex discussion where the parties tend to be less in agreement internally. From a climate responsibility perspective, closing down might seem like a responsible thing to do, given that oil in the ground does not cause emissions. On the other hand, from a global perspective, some argue that for a given energy demand, Norwegian oil might be among the most environmentally friendly alternatives and a lapse in Norwegian oil production will not affect global oil consumption. While new technology might allow environmentally friendly and less-costly production of Norwegian oil, we could also see a scenario (based on technology, taxes, or consumer behaviour) where the value of oil as an energy source decreases. Thus, some argue that delaying a restructuring of the Norwegian economy through continued (or expanded) oil production might turn out to be costly in other terms than emissions. To that end, carbon taxes have already influenced investment on the shelf towards environmentally friendly alternatives.

It is important to note that the question of setting an 'end date' for oil production has little support among the biggest political parties in Norway. One of the reasons the questions of protection of some areas have gained much more attention and support is because these cases are concerned with protecting areas where oil production could come at the direct expense of other interests, such as biodiversity, nature, and tourism.

#### **Political party standings and their views on the future of the oil industry**

The first row of Table 1 below gives an overview of the size of the parties in parliament and their seats after the 2017 election. The second row shows the hypothetical distribution based on an average of surveys conducted in January 2020. First, as is clear from the difference between the first and second row, the popularity of the sitting governments' parties has fallen. Second, the hypothetical distribution includes significant increases in seats for the Centre Party (+12) and the Green Party (+8). This has been referred to as the start of a green shift in Norwegian politics and has received much media attention – perhaps creating an image that Norway is on the verge of building down the oil industry. On the other hand, these parties disagree strongly in several areas, including in their views of the petroleum industry.

Table 1 also shows the parties' and their 'youth parties' attitudes towards five central questions related to the future of Norway's oil sector. Unlike demand-side policies, which have largely been adopted in Norway, these questions relate to important supply side policies. Note that the Green Party is the only party with clear statements in all five questions about ending oil production, both by the mother and 'youth party'. The four biggest parties (Labour, Conservatives, Progress, and Centre, with currently 140/169 seats) are all for continued exploration for new fields in some format, do not wish to set a fixed end date for the oil industry, will keep the reimbursement system for exploration costs, and do not state explicitly that they want to grant permanent protection to the northern Barents Sea. This shows that the current political situation in Norway is largely supportive of the oil industry.

Not surprisingly, the 'youth parties' are much more positive towards policies ending the oil industry. Here, all but Progress and Conservatives 'youth parties' seem in favour for such policies.<sup>1</sup>

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<sup>1</sup> Centre, Socialist and Red do not have a clearly stated view on all questions on their website. These views are subject to change over time.

Table 1	Main political parties of Norway, vote shares and their stance on oil industry related topics										Implied vote for/against proposition	
	Conservatives Høyre	Progress FrP	Liberals V	Christians KrF	Green MDG	Centre SP	Labour AP	Socialist SV	Red R	2017 election	Jan 2020 poll	
Votes (and mandates) from 2017 election	25.0 (45)	15.2 (27)	4.4 (8)	4.2 (8)	3.2 (1)	10.3 (19)	27.4 (49)	6.0 (11)	2.4 (1)			
Votes (and mandates) from January 2020 polls	21.0 (37)	12.0 (22)	2.8 (2)	3.4 (2)	5.1 (9)	16.6 (31)	25.3 (45)	7.1 (13)	4.5 (8)			
Stop exploration of new fields:												
Mother party	No	No	No	No	Yes	No	No	Yes	Yes	7.7 %	17.8 %	
Youth party	No	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	57.4 %	65.1 %	
Set a fixed enddate for the oil industry:												
Mother party	No	No	No	No	Yes "In 15 years"	No	No	Yes 2040	Yes 2030	7.7 %	17.8 %	
Youth party	No	No	Yes, 2035	Yes, 2035	Yes		Yes, 2035	Yes	Yes	51.8 %	55.9 %	
Discontinue the reimbursement system for exploration costs:												
Mother party	No	No	Yes	No	Yes	No	No	Yes	Yes	12.4 %	18.9 %	
Youth party	No	No	Yes	Yes	Yes	Yes	Yes			53.8 %	58.9 %	
Grant permanent protection of the northern Barents Sea:												
Mother party	No	No	Yes	No	Yes	No	No	Yes	Yes	12.4 %	18.9 %	
Grant permanent protection of Lofoten; Vesterålen, Senja (LoVeSe):												
Mother party	No	No	Yes	Yes	Yes	Yes	No	Yes	Yes	28.4 %	38.5 %	

Sources: Votes and mandates from [polltopolls.no](http://polltopolls.no), Party statements from respective political parties websites, calculations by DNB Markets

In the two rightmost columns of Table 1, the share of mandates for/against the policies based on the 2017 election and the January 2020 poll vote shares are shown. This is a rough back-of-the-envelope calculation where we simply count 1 if the party is in favour, 0 if the party is against, and 0.5 if the party has no explicitly stated stance. Each row shows the weighted average for each proposition based on the number of seats each party has.<sup>2</sup>

Naturally, the 'mother parties' are much more moderate than their youth parties. None of the suggested policies would have nearly enough support to go through if the parties voted on them today. The calculation shows, however, that there is a change towards more climate-friendly alternatives among the 'mother parties' when using the vote shares based in the January 2020 poll. The number of hypothetical seats that have been allocated towards climate-friendly policies comes from increased support for the Green Party and the Centre Party, which did well in the local elections in 2019. Still, none of the suggested policies would have more than 20% support, according to these calculations.

'Youth parties' are generally more in favour of the three first questions. If the political topics discussed here were alternatives going to the vote today, and if the 'youth parties' were in charge and voted according to their current programmes, there would be a stop in oil exploration, a set end date for oil production, and an immediate stop to the reimbursement system for exploration costs. While these figures in no way should be taken literally, they underline the youth movements' more climate-friendly policy stance in Norway.

### The exit of Progress and political debate going forward

Going forward, the parties will spend the spring of 2020 discussing and planning their party programmes coming up to the 2021 general election. Thus, the parties' viewpoint on climate questions and other matters could become subject to public debate in the near future. We find this especially the case for the ice-border, which gets a lot of media attention these days, as the sitting government will be giving its recommendation sometime during the spring. The fact that the Progress Party is no longer a part of the sitting coalition has spurred speculation that the Conservative Party might lean more towards a greener stance in the question, as the other members of the remaining coalition are in favour of a border further south. The Conservative Party seems to be split internally, as the youth party and Oslo-branch have expressed support for moving the border further south. The Labour Party is also under pressure by its 'youth party' to transform its politics towards a greener profile coming up to the 2021 election, but has refused to make any statement on the ice-border issue before the sitting coalition publishes its view. If the party accommodates the environmental side, it risks losing base voters over to the Progress Party or the Centre Party. It seems likely to us that the Conservative and Labour Parties will end up voting for a stricter border if that is the recommendation from the expert group. However, prime minister Erna Solberg has stated in an interview that unless the expert group recommends to move the border further south, the government has no intention of creating tougher restrictions for the oil industry.

Oddmund Berg, DNB Markets

<sup>2</sup> The number of seats is based on voting for the mother party only, as no such figure exists for the youth party. In the case where the youth party goes against their mother party, it is unclear whether the mother party would receive the same support if the more climate friendly profile were to be chosen. The calculation based on mother party support gives, at best, a quantified illustration of how likely the policies are to be approved if they were actual propositions to be voted over today. The quantification based on youth party policy gives, at best, an illustration of what direction policy is headed as these generations get older

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