
High Stakes in the High North

Russian-Norwegian Relations and their Implications for the EU



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Contents

AUTHOR	2
CONTENTS.....	3
SUMMARY.....	4
INTRODUCTION.....	5
PERCEPTIONS MOLD POLICIES.....	6
GEO-ECONOMIC INTERESTS.....	11
ENERGY PARTNERS OR COMPETITORS?.....	15
RUSSIA’S MIXED SIGNALS TO WESTERN PARTNERS	20
ANNEX I. NORWAY AND RUSSIA, SOME COMPARISONS.....	22
ANNEX II. RUSSIA AND NORWAY: ENERGY PORTRAITS	22
ANNEX III. GAS EXPORTS FROM NORWAY AND RUSSIA.....	3

Summary

After the collapse of the Soviet Union, Norway embarked on a policy to overcome old dividing lines in the High North and encourage closer cooperation with Russia, its large neighbor to the east. In addition to being neighbors in the High North—an area that still plays an important part in Russian strategic designs—both countries are important global energy players and share interests in developing energy resources in the area. However, their energy cooperation is influenced by many historical and geopolitical factors and concerns, and their bilateral relationship is strongly influenced by a visible disparity of their respective potentials and by their historically determined perceptions of each other. To what extent their cooperation in the energy sphere will be influenced by these perceptions, and to what extent their energy related interests overlap or collide are a few of the questions addressed in this brief analysis of the developing Russian-Norwegian energy relationship, particularly in light of Gazprom's decision to invite StatoilHydro to join the Shtokman gas field project.

Introduction

Few European neighborhoods have been transformed as profoundly over the last 15 years as the Norwegian-Russian one. While in the middle of the 1980s the area was seen as the potential frontline in a global conflict, today this region is seen as an area where one of the most promising strategic European energy projects is to be realized in cooperation between former foes of the Cold War era. However, the mental burden of the past still leaves its mark on the developing Norwegian-Russian cooperation. In Russia's eyes, Norway is not merely a neighboring state but also a member of the Atlantic Alliance, Russian views on Norway are thus shaped by those on NATO as well as its own international role. Although from 1991 to 1999, when Poland joined NATO, Norway was the sole NATO member with a common land border with Russia. Russian official documents on national security and foreign policy did not mention Norway at all. Norway can thus be said to be absent from Russian strategic mental maps.

In Norway, on the contrary, Russia is still very much present in strategic calculations. The country is one of the elements of the so-called strategic triangle made up of the EU, the US and Russia. Russian presence on Norwegian mental maps has much to do not only with history but also with the visible disparity of the two countries' economic, demographic and military potentials.¹ There is, however, one arena where Norway and Russia meet as almost equal partners, as both countries are important suppliers of energy to global and European markets.² The energy relationship between Norway and Russia will be the main theme of this brief analysis. Its central focus will be to explore how this energy dimension helps shape the bilateral relationship and how energy cooperation and competition between Russia and Norway affect European debate on energy security. In order to understand the impact this energy dimension has on bilateral relations, it is important to start with a brief presentation of how the two countries perceive each other.

This text is partly based on elements of an article by the same author originally published in *Evropa. Journal of the Polish Institute of International Affairs*, vol. 2, No. 3 (4), 2002, p. 46.

¹ For more on these disparities, see Annex I.

² In Annex II "Energy Portraits" of both countries are presented in order to give readers a better understanding of the energy dimension in the Norway-Russia relationship.

Perceptions Mold Policies

Although Norway does not seem to play an independent role in Russian foreign and security policy, the importance of northwestern Europe for Russia was obvious to the authors of the semi-official report on Russia's interests in Northern Europe, prepared by the Council on Foreign and Defense Policy (SVOP) in February 2001.³ This report clearly demonstrated Russia's interest in this region, and showed that Russia perceives the whole of Northern Europe as a secondary area of interest and that Norway is interesting as a NATO member, as a possible challenger and cooperation partner in the "gas, oil and fish game," and as an actual and potential provider of funds for environmental and social programs that the Russian state is not able or willing to finance on its own.

Norway is also sometimes regarded in Russia as a country where socialist ideas were successfully realized and where enormous oil and gas revenues have been used for the benefit of the whole population. The Norwegian state's oil and gas exploitation policy, its control of the energy sector and its policy of saving oil and gas revenues are often presented in the Russian media as an example to be followed.⁴

What, then, is Russia's place on Norway's mental map? Today, there are at least three major elements of Norwegian foreign and security policy.⁵ Due to the country's location, its restricted range of resources and its organizational affiliations, the three chief actors and factors shaping this policy are the transatlantic connection, the European Union, and Russia.⁶ Although not a member of the European Union, Norway is influenced directly by decisions taken in Brussels. Due to its decision in 1994 not to join the Union, Norway can rely on the EU as a provider of soft and hard security only to a limited degree. This in turn makes good relations with its

³ The text of the report is available in Russian at: <http://world.ng.ru/dipcorpus/2001-03-22/3_Interests.html>.

⁴ For more on that aspect, see special issue of *Expert Severo-Zapad*, No. 8 (261), 27 February-6 March 2006 (in Russian) devoted to relations between Russia and Norway available at: <www.expert.ru/printissues/northwest/2006/08/>.

⁵ For more on the Norwegian reading of this broader context, see in I. B. Neumann & U. Ståle (eds.), *Sikkerhetspolitikk. Norge i maktriangelet mellom EU Russland og USA* [Security Policy. Norway in a Triangle between the EU, Russia and the USA], TANO Aschehoug, Oslo, 1996.

⁶ On the importance of Russia in the process of shaping Norwegian security policy, see paragraph 3.9.1 of *Omleggingen av Forsvaret i perioden 2002–2005. Tilråding fra Forsvarsdepartementet av 16. februar 2001* [Transformation of the Defense Structure in 2002-2005. Recommendations of the Ministry of Defense from 16 February 2001], Parliamentary Bill, n° 45 (2000–2001).

NATO allies, especially the United States, all the more important.⁷ Relations between Russia and Norway are described in *Omleggingen av Forsvaret* (approx. “Defense Transformation”) in the following words: “Today’s Russia does not pose any military threat to Norway. For the near future, relations between Norway and Russia—a small country and a great power—will continue to develop asymmetrically. Tackling this relationship will remain a challenging task for Norwegian security policy.”⁸

The main policy goals are variously formulated. In a book published in the early 1990s Commodore Jacob Børresen, a senior advisor at the Norwegian Centre for Strategic Studies and former director of operations for Bosnia at NATO HQ SHAPE, claimed that these goals should be: to prevent war in the region; to ensure the sovereignty of the state and the right to mould its society; and to contribute to a peaceful development of the world in general.⁹ Similar lists of interests may also be found in official documents. A 1997–98 White Paper, for example, states that the most important goals are: to prevent war and contribute to stability and peaceful development; to secure Norway’s rights and interests and protect the country’s freedom of maneuver and the ability to withstand political or military pressure; and to protect and secure Norway’s sovereignty.¹⁰

Threat perceptions in today’s Norway have changed, and according to the official view, the country is not threatened by any large-scale invasion. All the same, the country still faces several security challenges, linked primarily to protection of its economic interests and to its international commitments, especially in the global fight against terror. Russia is today seen as a “geo-economic” factor rather than as a geopolitical threat. Political and economic cooperation with Russia has been seen as a practical way of helping Russia cope with its transitional problems, and especially in recent years Norway has been showing more and more interest in strengthening economic ties with this important neighbor to the east. After years of economic weakness, the Russian economy seems to be on the rebound and Russia also shows interest in embarking on closer cooperation with Norway; cooperation that may result in successful development of Russia’s offshore energy resources in the High North. However, this positive attitude toward mutually beneficial economic cooperation has recently been undermined by Russia flexing its military muscle in the High North, where President Putin ordered aircraft to fly the flag so as to signal Russian presence in a more assertive manner. This has caused some concern in Oslo and has even resulted in some calls for revision of Norwegian policy toward Russia.¹¹

⁷ More on this aspect in B. O. Knutsen *et al.*, *Europeisk sikkerhet i en foranderlig tid. En analyse av Norges utenriks- og sikkerhetspolitiske handlingsrom* [European Security in Changing Times. An analysis of Room for Action in Norwegian Foreign and Security Policy], Security Policy Library 4, Den norske Atlanterhavskomiteé, Oslo, 2000.

⁸ *Omleggingen av Forsvaret*, *op. cit.* [6].

⁹ J. Børresen, *Kystmakt. Skisse av en maritim strategi for Norge* [Coastal Power: An Outline for a Norwegian Maritime Strategy], Cappelen & Europa-programmet, Oslo, 1993, p. 219.

¹⁰ *Stortingsmelding* [Parliamentary Information], No. 22, 1997-1998.

¹¹ For more on that, see <http://news.bbc.co.uk/2/hi/uk_news/6981541.stm>.

Although relations between Russia and Norway have been developing rather smoothly and have displayed several signs of normalization, there are still areas where tensions are discernible.¹² The usual list of concerns in Russian-Norwegian bilateral relations contains the following points among others:

- Lack of progress in delineating borderlines in the Barents Sea. Such delineation is seen as important because it may attract investors who could contribute to the development and exploitation of the huge deposits of energy resources believed to be in the area. Border delineation is also necessary for the long-term, sustainable management of maritime resources in the region.
- The manner in which Norway manages maritime resources in its economic zone and in what Norway defines as its “zone of responsibility,” symbolized above all by arrests of Russian fishing vessels and what Russia sometimes presents as the persecution of Russian crews.¹³
- Norwegian policy and attitudes toward the Russian presence on Svalbard are seen as an attempt to force Russia out of this strategically important region and “militarizing” it.¹⁴ On the other hand, Norway seems nervous about Russian attempts at a *de facto* change to the functioning regime in the area as regulated by the Svalbard Treaty of 1920. The sending of the Russian destroyer “Severomorsk” to the area in June 2002 was seen as a Russian attempt to demonstrate that the country is willing to protect its economic interests in that area and to challenge Norwegian claims.
- Actual and potential contamination by Russian industry (Nikel) and nuclear waste (on the Kola Peninsula) of the area adjacent to the Norwegian-Russian border as well as the Barents and Norwegian seas, which are important for the fishing industries of Norway and Russia alike. Norway has allocated 1.3 billion Norwegian Kroner to help Russia cope with these challenges, but cooperation on this issue has run into trouble. In February 2007, the Norwegian co-chair of the Arctic Military Environmental Cooperation (AMEC¹⁵)

¹² For more on the development of bilateral Russian–Norwegian relations in the post-Cold War setting and various aspects of these relations, see A. Kjøberg, “Norges forhold til Russland og Øst-Europa” [Norway’s Relations with Russia and Eastern Europe] in T. Knutsen, G. Sørbo og S. Gjerdaaker (eds), *Norges Utenrikspolitikk* [Foreign Policy of Norway], Oslo, Cappelen, 2000, p. 347–369 and T. Laugen “Mot et kaldere klima? Utviklingen av det bilaterale forholdet mellom Norge og Russland på 1990-tallet” [Toward a Colder Climate. Developments in Bilateral Relations between Norway and Russia in the 1990s], *Internasjonal politikk*, vol. 49, No. 2, 2001.

¹³ This issue re-emerged in 2005 in connection with the Norwegian Coast Guard’s unsuccessful arrest of the Russian trawler “Elektron”.

¹⁴ More on Russian approach to the issue, see L. Yegorova, “Tikhaya vojna vokrug Shpitsbergena” [Quiet War around Shpicbergen], *Nezavisimaya Gazeta*, 10 November 1999.

¹⁵ Editor’s note: AMEC (established in 1996) is a cooperation between Norway, Great Britain, USA and Russia. AMEC provides a forum to collaborate in addressing military-related environmental concerns in the Arctic region. Of special concern were the large

delegation that was to inspect nuclear facilities on the Kola Peninsula, Ingjerd Kroken, was declared *persona non grata* by the Russian authorities. She was accused of illegal activities when she tried to learn more about how the Norwegian funds were spent.

- Russia has often criticized Norway for easing some self-imposed restrictions on military activities in northerly Finnmark County, and the presence of foreign troops and exercises taking place in this sensitive area bordering on the Kola Peninsula, the site of important Russian strategic assets.
- The Globus II radar in the northeastern Norwegian town of Vardø has often been regarded by the Russian side as part of the US-launched plan to build a new national missile defense system (NMD)—in the Russian interpretation this is a breach of the provisions of the 1972 ABM Treaty, rendering the agreement defunct.¹⁶
- The introduction of the Schengen border regime has also been criticized by Russia as a step making it more difficult for Russian citizens to visit Norway.

In more general terms there are two serious problems in this bilateral relationship—Norway's being a member of the Western military alliance, and overlapping sovereignty claims. Traditionally, the main Russian concern with Norway was the former. What is seen by the Russian side as heightened military activity in the Norwegian north (exercises with foreign troops in Finnmark, the radar in Vardø) has to be considered in the context of Norway's NATO membership in a qualitatively new international situation. With Norway having lost much of the pivotal role it used to have in NATO due to its strategic position during the Cold War, the country's authorities decided that its allies should be engaged in new ways in order to keep them interested in Norway. Opening up Finnmark for exercises and participation of foreign troops is not meant to indicate that Norway feels threatened in that region and is inviting foreign troops in order to beef up its security. It is rather a sign of normalization of relations with Russia. As Norway sees it, the previously self-imposed restrictions could be lifted because the political and security reasons for their imposition are no longer pertinent. One of the best indications that Norway is serious about building new kinds of relations, and that the country does not feel threatened in the north is the program of restructuring the country's military forces. When completed, this program will result in a substantial demilitarization of the

quantities of unsecured spent nuclear fuel from decommissioned submarines that threatened the fragile arctic environment in the Murmansk region.

¹⁶ On the Russian interpretation of the tasks of the Vardø radar see P. Cherniakov, "Radar bespokoit norvezhskikh deputatov" [The Radar Worries Norwegian Deputies], *Nezavisimaya Gazeta*, 23 May 2000; P. Cherniakov, "Igor Ivanov v Bergene" [Igor Ivanov in Bergen], *Nezavisimaya Gazeta*, 23 June 2000. For more about Norwegian views on Vardø, see: <www.fo.mil.no/etterretningsstab/globusii/index.html>.

Norwegian north, with deep cuts in the Norwegian military structure and its adaptation to today's post-Cold War realities.¹⁷

Another general problem is what could be termed the “overlapping sovereignties” of the two countries. The question of the status of Svalbard and the role Russia is to play in this area, the management of maritime resources, problems with delineating the maritime border in the Barents Sea—these are all closely linked to the existence of overlapping sovereignty claims in the area. This issue is of a purely economic nature; there are very high expectations as to what can be found under the sea in the High North. The two countries claim sovereignty over certain areas and cannot agree on the division of others because these areas either already have or are believed to have a certain economic value, not least due to the US Geological Survey assessment that up to 25 percent of undiscovered energy resources may be located in the Arctic region. In addition, the region seems to also have a high symbolic value for Russia: in the summer of 2007 it planted its flag on the bottom of the sea close to the North Pole in order to lay claim to this area and to its as yet undiscovered resources.

The emphasis on economic aspects is clearly linked to the shifting focus of Russia's national strategy. The pragmatism in foreign and security policy advocated by Putin ever since he was appointed Prime Minister has resulted in a reformulation of Russia's long-term goals. The tragic loss of the “Kursk” in 2000,¹⁸ was an important wake-up call for Putin and a reminder that Russia could not retain its great-power status in the High North without paying more attention to economic reform. This accident also showed that the old dividing lines in the region could be overcome, that cooperation could yield positive results and that Norway had technology that could be useful for Russia to have access to if the country was to embark on the policy of taming the elements in the High North. Western-Russian cooperation during and after the Kursk accident also marked a symbolic end to the Cold War mindset in the High North. While the main concerns in Soviet-Western relations during the Cold War had been of a geopolitical and hard security nature, problems today arise mainly as a consequence of what could be termed a “geo-economization” of the policies of both countries.

¹⁷ For more on Norwegian military reform and policy, see:
<www.regjeringen.no/upload/FD/Dokumenter/FoF_2006_eng.pdf>.

¹⁸ Norway played an important role in the rescue attempt and in recovering the bodies of Russian sailors.

Geo-economic Interests

The late vice-admiral Bjørnar Kibsgaard who spent his whole life in the Norwegian Navy and later served as a leading political and strategic analyst published a series of articles on Norwegian economic interests in a new international context, with the focus on the importance of sea-based resources (gas, oil, fish).¹⁹ He listed the following “economic interests” that Norway should protect by various means and in cooperation with a range of actors, first and foremost its NATO-allies and partners from the EU:²⁰

- secure sustainable and reasonable exploitation of energy resources on the continental shelf,
- secure access to markets,
- defend its sovereign rights at sea,
- secure the best possible flow of capital,
- contribute to keeping the tensions between the great powers at a low level in vulnerable sea areas.

Kibsgaard listed five factors decisive in shaping Norway’s perceptions in an international context.²¹ Four of these factors are of an economic (geo-economic) nature, and only one is referred to in geopolitical terms. Although the Cold War is over, Russia can still be seen as a potential threat in all five cases:

1. In 2000 Norway was the world’s second biggest exporter of crude oil, and this was seen as posing a geo-economic threat to Russia, since both countries were and are still dependent—though in different ways—on revenues from the sale of oil on the same global, and above all the European market.²²
2. Norway is the second biggest exporter of gas to the European market and competes directly with Russia for market share and customers.

¹⁹ B. Kibsgaard, *Why Energy has Become a Security Policy Problem*, Security Policy Library 6, Oslo: Den norske Atlanterhavskomiteé, 1998; B. Kibsgaard, *Norske havområder: Strategiske og sikkerhetspolitiske utfordringer* [Norwegian Maritime Areas. Strategic and Security Challenges], Security Policy Library 9, Oslo: Den norske Atlanterhavskomiteé, 2000; B. Kibsgaard, *Norge i energiens geopolittikk* [Norway and the Geopolitics of Energy], Security Policy Library 3, Oslo: Den norske Atlanterhavskomiteé, 2001.

²⁰ B. Kibsgaard, 2000, *op. cit.* [19], p. 6.

²¹ *Ibid.*, p. 4–5.

²² However, this assessment must be qualified, because seven years later, production of oil in Norway has dwindled after reaching its peak in 2001 and increasing demand rather than oversupply of oil is the main factor influencing prices and markets, today Norway is not necessarily seen as a threat.

3. Norway is responsible for the management of maritime resources in the biggest economic zone in Europe (circa 2 million km²—seven times the size of mainland Norway), located next to areas controlled by Russia. Russia may become a major source of contamination of this economic zone due to the storage of nuclear waste in the area bordering it, Russia's problems with handling this waste, the country's plans for importing nuclear waste from abroad, and not least in the planned transport of huge quantities of oil and gas along the Norwegian coast.
4. Due to high revenues from the sale of gas and oil (maintained through Norway's State Petroleum Fund, now known as the Government Pension Fund),²³ Norway has also become one of the biggest exporters of capital, and Russia is near enough that it could attract substantial Norwegian investment. However, in order to be able to attract this capital, Russia will have to improve its reputation as an area of relatively high investment risk, and its authorities will have to implement a reform program. On the other hand, as Yukos' "raid" in Norway in autumn 2001 demonstrated,²⁴ Russian actors may be interested in investing abroad and taking over foreign companies as a way of channeling their surplus or getting access to state-of-the-art technology they may need in order to embark on new, more difficult projects.
5. The only geopolitical point on Kibsgaard's list concerns the geographical location of the country in an area defined as strategically important by both the transatlantic community and by those forces in Russia that see their country as a global or regional power and a challenger to the transatlantic community, which the Russian political class describes as a tool of US hegemony. This becomes especially relevant now that Russia seems to be focusing on the High North and the North Fleet as the main asset for realizing the country's new naval strategy for 2000-2010, signed by President Putin in March 2002. Furthermore, Russia's growing interest in territorial presence in the north (as symbolized quite recently by the planting of the Russian flag on the seabed under the North Pole), may herald a new Russian approach to a whole set of territorial issues, such as the interpretation of the provisions of the Svalbard Treaty. Russia's new focus on this area can be linked to attempts to improve the country's position in the Arctic zone. Already in 2002, two articles published in *Nezavisimaya Gazeta* warned that Russia was seeking to assert its economic rights on the Arctic Ocean shelf

²³ For more on that, see: <www.regjeringen.no/en/dep/fin/Selected-topics/The-Government-Pension-Fund.html?id=1441>.

²⁴ In 2001 the Russian oil company Yukos made an unsuccessful attempt to take control of Kværner, a leading Norwegian offshore technology company. This was one of the first Russian attempts to invest abroad, and was intended to give Yukos a competitive technological edge. For more on that, see: <<http://news.bbc.co.uk/2/hi/business/1595139.stm>>.

through the UN.²⁵ The main motivation is economic, as Russia expects to find new energy resources there. Norway is perceived as one of the main competitors in this area, making the question of border delineation even more pressing, although there are some signals from Moscow that Russia may be willing to adopt a more flexible stance on this particular issue.

An interest-focused analysis of relations between Norway and Russia reveals a certain asymmetry in perceptions. While Russia, weakened by ten years of crisis but about to regain its clout, has remained a major factor in shaping Norwegian policy and a challenge to Norwegian policy-makers, Norway is seen by Russia primarily within the broader context of Russia's relations with the West and its institutions, NATO first and foremost.²⁶ One might have expected that the post-9/11 improvement in relations with NATO—described sometimes, probably prematurely, as a tectonic shift²⁷—could be translated into a more cooperative climate in relations between Russia and Norway, but this has definitely not been the case. During his working visit to Berlin in June 2002, State Secretary of the Ministry of Foreign Affairs of Norway Kim Traavik regretted that Russian attitudes toward constructive cooperation with Norway were marked by “assertiveness.”²⁸

Norway, on the other hand, has been pursuing a policy of strengthening relations with Russia, based on a hope of building a long-term economic partnership in the area. The Norwegian Foreign Minister, Jonas Gahr Støre, outlined the main elements of Norwegian foreign policy in his Washington speech (in June 2006): developing Norway's relations with Russia is a cornerstone of Norwegian High North policy, and Norwegian management of this bilateral relationship has been a major contribution to peace and stability in northern Europe. He also added that Norway wanted to “move forward in developing a new kind of relationship built on joint opportunities, in improving the management of living resources and not least in pursuing what President Putin has called a strategic energy partnership between Norway and Russia.”²⁹ Støre was also clear in his assessment of the role of energy when he added that energy is a new dimension that contributes to the reintroduction of the High North to the political scene. He also showed that he clearly understood the role that energy policy plays in Russian designs, and referred to the issues of

²⁵ P. Kanevskaya, “Rossiya prirastayet shelfom” [Russia Extends its Continental Shelf], *Nezavisimaya Gazeta*, 6 June 2002; V. Aglamishyan, “Pogonya za uplyvayushchim shelfom” [In Pursuit of the Elusive Continental Shelf], *Nezavisimaya Gazeta*, 30 March 2002.

²⁶ For more on Norwegian readings of Russia as a factor in Norwegian policy-making, see Iver B. Neumann, *Norges handlingsrom og behovet for en overgripende sikkerhetspolitisk strategi* [Norway's Room for Action and the Need for an All-encompassing Security Strategy], Oslo: The Norwegian Atlantic Committee, 2002, p. 4–10.

²⁷ J. Kipp, “Tectonic Shifts and Putin's Russia in the New Security Environment”, *Military Review*, March–April 2002.

²⁸ A. Willersrud, “Russisk pågåenhet irriterer UD” [Russian Assertiveness Irritates Ministry of Foreign Affairs], *Aftenposten*, 21 June 2002.

²⁹ Jonas Gahr Støre's speech in Washington on 15 June 2006. The text of the speech is available at: <www.odin.no/ud/english/news/speeches/minister_a/032171-090614/dok-bn.html>.

energy security, energy supply and energy dependency as important elements of a new political game in Europe, pointing out the fact that consumers and suppliers could have different approaches to these issues. According to both Støre and other actors, cooperation in the field of energy is to become the main element of a new partnership with Russia. At the same time, however, Norway is not interested in coordinating its energy policy with Russia or in joining any club of energy producers in which Russia could play a major part.

Energy Partners or Competitors?

Development of common energy projects in the Barents Sea—especially the Shtokman gas field—was supposed to form the economic basis of a new era in bilateral cooperation. Both countries are “energy superpowers,” with Russia and Norway respectively the world’s second and fifth biggest oil exporters (in 2007). Both countries are also main suppliers of gas to Europe, representing respectively 50 and 22 percent of all gas imports to the EU-27. By 2006, Norway seemed to be gripped by “Shtokman fever.” Expectations ran high that Statoil and Norsk Hydro would become Gazprom’s strategic partners in the development and exploitation of the Shtokman field. When in October 2006 the Russian gas giant announced that it would develop Shtokman on its own, Norwegian hopes were shattered.

Norwegian companies, policy makers and public had hoped that cooperation between Norwegian and Russian energy sectors would open a qualitatively new chapter in bilateral relations and help both countries explore and exploit the High North. The region was to become a Russian-Norwegian energy meeting point, where Norway was to cooperate with Russia on the development of huge energy assets, when it was “time to integrate Norwegian and Russian expertise.”³⁰ Some Norwegian energy policymakers and managers hoped that energy cooperation with Russia would result in a sort of melting of Norwegian and Russian energy interests in the north and that Russia might send its gas from the Barents to Europe through the Norwegian pipeline networks that were to have spare transport capacity due to the expected decrease in Norwegian production of gas and oil on the continental shelf. Norwegian production of oil peaked in 2002-2003 and has been falling ever since—it was 7.5% lower in 2005 than in 2004, and this negative trend continues. Norwegian production of gas has been growing constantly, but known reserves of gas will secure production at current levels for only slightly more than 28 years, and the planned increase in production will shorten this time span even further.³¹ Cooperation with Russia in the High North was not only to provide an opportunity for Norwegian companies to participate in an ambitious and challenging energy project in the Shtokman field—it was the easiest way for them to prolong their lifecycle as they face a sharp decline in oil production

³⁰ H. Carlsen, *Challenges and Opportunities in the Far North*, presentation given at Troms County Committee on 6 December 2005, available at: <www.statoil.com>.

³¹ *BP Statistical Review of World Energy*, 2007. For a good insight into the future of Norway’s oil and gas production see F. Olav, *Norway, the Petro-Nation. Today and in 10 Years*, March 2001, Statoil, available at: <[www.statoil.com/STATOILCOM/SVG00990.nsf/Attachments/Paradoxofplenty.pdf/\\$FILE/Paradoxofplenty.pdf](http://www.statoil.com/STATOILCOM/SVG00990.nsf/Attachments/Paradoxofplenty.pdf/$FILE/Paradoxofplenty.pdf)>.

on the Norwegian continental shelf in the years to come. They will have to “go global,” to internationalize, in order to survive and maintain their competitive edge as providers of state-of-the-art technological solutions. These concerns were also an important factor behind the decision of the state-owned Norwegian oil and gas companies—Statoil and Norsk Hydro—to merge. It is believed that only a stronger actor with a higher international profile will be able to secure Norway’s interests on the international scene.

However, Norwegian strategic calculations with respect to Russia seem to be based more on wishful thinking than on sober assessments of reality. Putin’s Russia, strengthened by enormous revenues and the revitalization of the Russian economy caused by high commodity prices, has implemented an energy strategy in which there is not much room for foreign companies to establish themselves as significant actors. Furthermore, many Western companies have recently been forced to give up their best assets in Russia. Russian authorities have made it clear that Russia should not be treated like a Third World country, that Production Sharing Agreements (PSA) are to be abandoned and that Russia wants to retain complete control over its important energy assets. In addition, Russia has signaled that the country is interested in establishing direct energy links with its most important energy customers in Europe, since any form of transit is seen as increasing transit-related political and economic risks and long-term costs, which this strategic energy supplier wants to avoid.

Norway has openly signaled its intention to cooperate more closely with Russia on energy; Russia in turn has interpreted this signal as a sign of Norwegian desperation rather than a genuine offer of frank cooperation that could be beneficial to both parties. It seems that until recently Russia regarded Norway as a potential energy rival and competitor rather than a partner that could make a positive contribution. Whilst Norway does possess state-of-the-art technology that could be useful in developing Shtokman, it seems that Russia was not in as much of a hurry as Norway and could get access to technology without giving up its control of the field. The choice of Total as a partner in Shtokman could be explained by the fact that Total does not compete directly with Russia in the European or global energy game and at the same time can provide Russia with the necessary technology. The Norwegian companies, on the other hand, were seen as potential competitors and Russia might therefore be reluctant to help them survive.

Before Shtokman, Statoil and Norsk Hydro have already shown interest in expanding into Central Europe and have even managed to capture Russian market share in the Czech Republic,³² and had moderate success in Poland. The 2001 Norwegian-Polish agreement on deliveries of Norwegian gas to Poland in particular was seen by Moscow as a challenge and as an encroachment on Russian gas interests in Central Europe.³³ In addition, Statoil decided to join other Western companies in the development of various important energy projects in the South Caucasus, a

³² In 2006 Norway had an almost 25% share of gas imports in the Czech Republic. Only a few years ago, the Czech Republic was completely dependent on deliveries from Gazprom.

³³ For more on that ,see <www.expert.ru/printissues/northwest/2007/12/eksport_gaza/>.

move that was also interpreted as detrimental to Russian energy interests in the region.

In September 2001, the Prime Ministers of Poland and Norway signed a highly symbolic deal on deliveries of Norwegian natural gas to Poland. According to this deal, Norway was to provide Poland with 74 billion cubic meters (bcm) of natural gas in the period of 2008 to 2024. The contract signed by the two state-controlled companies—Statoil and Polish Oil & Gas Company (POGC-PGNiG)—was worth nearly US\$ 12 billion. This contract was to give Statoil a strong position not only in the Polish but also—in the longer run—in the Central European market, thus challenging Gazprom’s dominant position in that region. This point is illustrated by the fact that both the Hungarian Prime Minister and his Slovak counterpart—whose countries are dependent on Russian gas supplies—expressed interest in joining the Polish-Norwegian deal in order to solve their own energy security dilemmas.³⁴

The Polish-Norwegian agreement could pose problems to Russian-Finnish-German plans for the construction of the Northern European Gas Pipeline (NEGP) as “two lines may be unable to cross undersea.”³⁵ Therefore it seemed, in September 2001, as if a sort of gas pipeline stalemate was developing in the Baltic Sea region, as there were many competing blueprints on how to use the Baltic space to address the issue of energy security in Western as well as in Central and Eastern Europe. The Polish-Norwegian gas deal was presented in Poland as a crucial moment in recent Polish history as it was to make the country less dependent on gas provided by Gazprom. Since dependence on Russian energy sources was strongly linked to security in Poland, the signing of the Polish-Norwegian agreement represented a new qualitative situation in the country’s energy and security policy.³⁶ However, the political forces that came to power only three weeks after the signing of the deal decided to “de-securitize” the issue of energy dependence on Russia and withdrew from the Norwegian-Polish gas deal. This reopened the way for Gazprom’s plans. In September 2005, a deal on the construction of the NEGP was signed and work on building this pipeline began in Russia’s Vologda region in December 2005.³⁷ Once this ambitious project entered its realization phase, political, geopolitical and security concerns re-emerged and a new debate on its importance and economic, political, geopolitical and security impact was

³⁴ <www.rferl.org/newsline/2001/09/100901.asp>.

³⁵ <www.rferl.org/features/2001/07/03072001111713.asp>. For more on various interpretations of the NEGP project—re-branded later as Nord Stream—see J. M. Godzimirski, “How to Read Readings of the NEGP?”, *Baltic Mosaic*, No. 5, 2006, p. 34-47, <www.brcinfo.ru/bms/bmpub.php?id=27>.

³⁶ Access to secure and diversified sources of energy is a goal of Poland’s security policy. In the Polish security doctrine of 4 January 2000, the importance of this issue was emphasized in the chapter dealing with the questions of economic security: “Securing the energy security of the country requires diversification and protection of the sources and channels of supply of the major imported sources of energy such as oil and natural gas. It is necessary to secure guaranteed, long-term supply of the energy resources to our country and to try to find suppliers both in countries that are our allies and in other countries.”

³⁷ <<http://negp.info/news/news18.html>>.

launched.³⁸ Realizing this strategic project will not only make Russia less dependent on transit countries and strengthen its position as a key gas supplier of the German gas market, but also pave the way for the delivery of huge quantities of Russian gas to the most attractive “emerging” gas market, the UK. Gazprom has also shown interest in acquiring assets in Centrica, the most important downstream actor in the British market.³⁹ In November 2007 the Dutch company Gasunie was invited to join the Nord Stream project – it will acquire 9 percent of shares in the German-Russian project, but Gazprom will get access to the Balgzand Bacton Line (BBL) through which it can supply gas to the UK.⁴⁰

The debate on the NEGP—together with Russia’s “energetic” actions in Ukraine in 2006 and in Belarus in 2007—was to dominate the European discussion on energy security and the need for a common European energy strategy in the years to come. An important voice in this new debate was that of the new Polish government, formed in 2005, which again put the issue of Polish—and more generally European—overdependence on Russian gas on the table. While Russia was again being defined as part of the problem, Norway was once more to become part of the solution.⁴¹

This approach to Norway as a remedy for European overdependence on Russian gas is well understood but not necessarily welcomed in Moscow. When, in January 2007, the Norwegian gas transport company Gassco announced that an agreement had been reached on building the Skanled pipeline, connecting the Western coast of Norway with Sweden, Denmark and in the longer perspective with Poland, the decision was seen as a challenge to Gazprom’s plans for the construction of the NEGP.⁴² Thus events in the Baltic region may have had an indirect impact on the future of Russian-Norwegian cooperation in the High North. The fact that Norway increased its production—and sales—of gas (in 2006, production was 8.5 percent higher than the previous year) and has become an even bigger competitor to Gazprom on Western and Central European gas markets may have been another nail in the coffin of Norwegian-Russian energy cooperation in the High North.

Had it not been for Norwegian gas, Gazprom would have been able to dictate the rules of the gas game in Europe in close cooperation with other key gas suppliers, such as Algeria or Libya. In purely mercantile terms, Norway could, therefore, be seen as an element that prevents Gazprom from achieving an almost monopolist position in Europe.⁴³ For

³⁸ To learn more about this project, see a special Russian-English issue of the *Baltic Mosaic* published by the Baltic Research Centre, May 2006, available at:

<www.brcinfo.com/bms/bm.php?id=7>.

³⁹ <<http://news.bbc.co.uk/2/hi/business/6740709.stm>>.

⁴⁰ For more detail, see <www.kommersant.com/p710792/r_1/Gazprom_Get_UK/>.

⁴¹ For more on that, see J. Dempsey, “Poland Looking to Diversify its Energy Sources”, *International Herald Tribune*, 26 October 2006, available at: <www.iht.com/articles/2006/10/26/business/polgas.php>.

⁴² For a Russian reading of that, see: <www.vremya.ru/2007/110/8/181453.html>.

⁴³ For more detail on the position of Russia and Norway on European gas markets see Annex III.

instance, the fact that Norway responded negatively to Russia's invitation to coordinate the two countries' energy policies and market strategies was seen as a clear manifestation of Norway's unwillingness to add a political dimension to energy. Russia could neither count on Norway as a future member of a Gas-OPEC—a project that Russia is discussing with other important gas producers without reaching, for the time being, any binding conclusions.⁴⁴

⁴⁴ See D. Finon, "Russia and the 'Gas-OPEC.' Real or Perceived Threat?" *Russie.Nei.Visions*, Ifri, No. 24, November 2007.

Russia's Mixed Signals to Western Partners

The fact that Norway has chosen to challenge Gazprom's monopoly in Central Europe and is strengthening its position on the most promising future gas market in Europe—the UK—adds to Gazprom's annoyance with Norway. The fact that neither Statoil nor Norsk Hydro was invited to join Gazprom on the Shtokman project in 2006 might therefore be seen as a sort of punishment. On the other hand, Norway will not be able to completely replace dwindling gas production in the UK and whether the Western and Central Europeans like it or not, Russia will retain its dominant position on the European gas market. Established Norwegian gas reserves, representing only 1.3 percent of total confirmed gas reserves in the world, are going to be depleted in 28 years if current levels of production are maintained, while Russia's share is 26.6 percent and gas production at today's levels can continue for the next 80 years. It seems, therefore, that in a long-term perspective this is a battle between David and Goliath, and that this time size may make the difference.

On the other hand, it seems that the Russian leadership and Gazprom's management have realized that in order to retain its dominant position and meet all its gas commitments, Russia will need to develop the Shtokman field, and that Norwegian companies will have to play a role in this project. On 25 October 2007 Russian President Vladimir Putin made a telephone call to Norwegian Prime Minister Jens Stoltenberg, and informed him that StatoilHydro was to be invited to join Gazprom in development of the Shtokman field in the Barents Sea. A few hours later the same deal was announced in Moscow by the heads of the two companies, but it is still unclear on what conditions StatoilHydro is allowed to join Gazprom and Total. It seems that StatoilHydro got less than it expected to get early in 2006 but more than it could have hoped for in October 2006, when Gazprom announced that it was to develop the field on its own. The fact that the deal was sealed by a telephone call from Vladimir Putin to the Norwegian head of government shows that this project also has a clear political dimension. It remains to be seen whether the politicization of this energy project will have a positive or a negative impact on its future realization.

The decision on the fate of the Shtokman field is going to be taken in 2009 and it is probably then that we will learn more about the future role of Western companies in this undertaking's most profitable phase. In the meantime, Russia continues to send mixed signals to its Western partners. On the very same day as the decision on StatoilHydro was announced by

President Putin, Russia decided to send its strategic bombers along the Norwegian coast in a Cold War era maneuver that was widely interpreted as a show of force to intimidate NATO defense ministers gathered in the Dutch city of Noordwijk to discuss cooperation between Russia and NATO with their Russian counterpart. Although the news on StatoilHydro's invitation to join Gazprom completely overshadowed coverage of the Russian bombers, this combination of old and new approaches to cooperation with the West does not make interpretation of Russia's long-term goals and intentions an easier task.

Annex I. Norway and Russia, Some Comparisons

Category	Norway	Russia	Russia/Norway Ratio
Area (in thousand sq.km)	323	17,075	52.86
Population (in million)	4.4	143	32.50
GDP in \$bn (2006)	328	1670	5.09
GDP/capita (2006) in \$	71,232	11,790	0.17
GDP growth in % (2006)	2.2	6	2.73
Defence budget in \$bn (2006)	4.83	24.9	5.16
Armed forces	23,400	1,027,000	43.89
Tanks	165	22,831	138.37
Aircraft (combat capable)	61	1650	27.05

Annex II. Russia and Norway: Energy Portraits¹

Category	Russia	Norway
Production of hydrocarbons (oil + gas) per capita in 2004 in tonnes of oil equivalent ²	6.84	48.49
Export of hydrocarbons per capita in tons of oil equivalent ³	3.01	45.84
Share of export in the country's hydrocarbon production (%) ⁴	47	94
Oil incomes 2005 in billion US\$ ⁵	106.5	53.5
Oil		
Established reserves of oil 2005 (thousand million tonnes)	10.2	1.3
Oil production 2005 (millions tons)	470	138.2
Oil production share 2005	12.1	3.5
Oil production increase 2005/2004 (%)	2.7	-7.5
Oil reserves/production ratio	21.4	8.9
Share of global reserves of oil (in %)	6.2	0.8
Oil exports 2005 (mb/d)	6.8	2.7
Oil export rank 2006	2	5
Share of oil import to the EU (%)	26	20
Gas		
Known reserves of gas (trillion cm)	47.82	2.41
Share of global reserves of gas	26.6	1.3
Gas reserves/production ratio	80.0	28.3
Gas production 2005	598	85
Gas production share (%)	21.6	3.1
Gas production increase 2005/2004	1.5	8.6
Gas exports 2006 (bcm)	191	68
Gas export rank 2006 ⁶	1	3
Share of total global gas exports ⁷	22	11
Share of Gas Import to the EU-25 ⁸	41-50	22-25
Share of the EU-25 Total Gas Consumption	24	11

¹ BP Statistical Review of World Energy, 2007 (unless another source is given).

² Vladimir Milov's presentation at Moscow Carnegie Center, *Can Russia Become an Oil Paradise?* 28 September 2006.

³ *Ibid.*

⁴ *Ibid.*

⁵ <www.expert.ru/tables/expert/2005/41/document38649/>.

⁶ J. Percebois, "Les perspectives d'approvisionnement de l'Europe en gaz naturel" [Perspectives on Gas Supplies to Europe], presentation given at colloque "La Sécurité d'Approvisionnement de l'Europe en Gaz Naturel" [Security of Gas Supply in Europe], at Université de Paris Dauphine (CGEMP), 2007.

⁷ *Ibid.*

⁸ *Washington Quarterly*, Spring 2007, based on European Commission's data from 2004 and J.-H. Keppler, *International Relations and Security of Energy Supply: Risks to Continuity and Geopolitical Risks*, Brussels: Directorate-General for External Policies of the Union, available at: <www.europarl.europa.eu/activities/expert/eStudies/download.do?file=16136#search=%20energy%20supply%20>.

Annex III. Gas Exports from Norway and Russia

Gas exports from Norway and Russia to third countries (2006 in bcm)		
Country	Norway	Russia
Austria	0.78	6.85
Belgium	8.50	0.63
Bulgaria	-	2.85
Croatia	-	0.75
Czech Republic	2.35	7.13
Finland	-	4.52
France	14.50	9.50
Germany	26.80	36.54
Greece	-	2.40
Hungary	-	8.32
Ireland	-	-
Italy	7.20	22.92
Latvia	-	1.70
Lithuania	-	2.90
Luxembourg	-	-
Netherlands	7.00	2.97
Poland	0.49	7.00
Portugal	-	-
Romania	-	3.95
Serbia	-	2.15
Slovakia	-	6.30
Slovenia	-	0.56
Spain	2.12	-
Sweden	-	-
Switzerland	0.08	0.37
Turkey	-	19.65
United Kingdom	14.10	-
Others	0.08	1.50

Source: <www.bp.com/statisticalreview>.