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Net-zero or phase out?

Stakeholder views on just transitions pathways for oil and
gas in Norway

Key points

- In February 2022, a group of stakeholders discussed two alternative pathways for the future of Norway's oil and gas sector.
- The stakeholders broadly accepted the visions of achieving net-zero emissions in the sector by 2050. Realizing a just pathway to net zero will require strong government leadership, new institutional mechanisms to enable societal participation, and action by the business community.
- The stakeholders did not view a just pathway to a complete phase-out of oil and gas production by 2050 as feasible.



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Introduction

The oil and gas sector is a significant part of Norway's economy and society. Acknowledging that the exact share of the economy fluctuates with the oil price, in mid-2022 it represented 28% of the country's GDP, 58% of its exports, and in 2019 it employed close to 6% of the country's workforce¹. Norway's petroleum sector is important economically and key to maintaining its generous welfare state. Norway is also a critical supplier of natural gas to Europe, which has taken on increased importance during the energy crisis provoked by the Russian invasion of Ukraine.

But Norway's petroleum production also accounts for 28% of its greenhouse gas emissions. Given the urgent need to reduce emissions and mitigate climate change across all countries, a key question is the future of the country's petroleum sector. Norway is potentially well-positioned to start transitioning away from petroleum production as it possesses large financial resources, has well-functioning socio-political institutions, and the industry has the technical know-how to reduce emissions and produce alternative energy sources. Yet, achieving such a transition – one that is just – will be contentious and challenging, as it will require transforming the entire economy and moving financial resources out of a well-known, super-profitable industry.

Convening stakeholders to discuss two just transitions pathways to 2050

Achieving large-scale social and political consensus on the path forward for the oil and gas sector is a critical first step in achieving climate goals. The Oil and Gas Transition project² presented two alternative visions for the future of the Norwegian petroleum industry to a group of Norwegian stakeholders for their feedback: one of net-zero emissions in 2050, and a second where petroleum production is phased out by 2050.

1. The net-zero vision in the context of the Norwegian oil and gas industry would entail striking a balance between releasing greenhouse gas emissions into the atmosphere and removing them, by the year 2050. Such an approach would need to take into consideration Scopes 1, 2, and 3 emissions from petroleum production.
2. The phase-out vision entails an end to the extraction of all hydrocarbons by 2050, including for use in petrochemical industries and blue hydrogen production.

What do Norwegian stakeholders see as opportunities and bottlenecks for achieving a just transition under these two alternatives? To answer this question, a two-day multi-stakeholder dialogue workshop was convened in February 2022 in Oslo, drawing together 18 representatives from the Norwegian oil and gas sector, politicians and civil servants, industry actors, and environmental campaigners and trade unionists. These stakeholders were asked to identify concrete actions and responsible actors, and opportunities and constraints for achieving the two pathways on a timeline between 2022 and 2050. Below, we report the results of this dialogue.

Pathway 1: Towards Net-Zero by 2050

Stakeholders at the dialogue workshop expressed acceptance for a net-zero emissions vision by 2050. If this goal is to be achieved, deep-seated transformations in the global energy system will be needed, as well as concerted efforts by the Norwegian government and from other social actors. Key milestones on this pathway include setting out immediate and specific targets for the electrification of offshore installations, the roll-out of large-scale offshore wind power installations, and deployment of technologies for capturing, using, and sto-

The Norwegian government should take the following actions to transition the oil and gas sector to net-zero emissions:

Establish unambiguous transformation goals.

Craft a clear transformation narrative.

Engage in industry partnerships and mutually binding agreements with social partners, based on a just transition framework.

Social partners should:

Actively develop and propose measures and interventions in line with the overall goals.

¹ www.norskpetroleum.no

² www.oilandgastransitions.org

ring carbon (CCS) on the Norwegian Continental Shelf. As new oil and gas developments are expected to stall after 2026³, a strong statecoordinated industrial package for the green transition is of vital importance for value and employment creation.

The main actors required to take responsibility for this pathway are the Norwegian state, in close tripartite dialogue with labour and capital. Institutional mechanisms will be needed to ensure the participation of local communities and civil society organisations. Government has a prominent role to play in this transition pathway, by setting targets, facilitating skills development, articulating a strong transformation narrative for the sector, imposing a CO₂ tax, and creating an enabling policy and legal framework. Business actors need to take action to reduce emissions from their activities, and to assist their workers in acquiring and updating their skill sets. They also need to develop and scale up wind power production, carbon capture and storage facilities, and the hydrogen value chain.

The net-zero pathway faces a series of obstacles. Among them are popular resistance to new renewable energy projects, as well as increasing electricity prices and the risk this poses to plans for the electrification of offshore installations, and the potential for increased unemployment. Norway has experienced considerable public opposition to large on-shore wind power projects, and currently there is a lack of policy consensus on how to implement a net-zero regulatory framework for oil and gas producers. Moreover, rising electricity prices following electrification of petroleum installations at a time of increased industrial demand for access to electrical power means that politicians will have to balance the needs and interests of household consumers against those of the industrial sectors producing the highest levels of emissions.

Pathway 2: Phasing Out Oil and Gas Production by 2050

The second vision presented to the stakeholder group is the phasing out of all oil and gas extraction activities on the Norwegian Continental Shelf by 2050. In contrast to the first pathway, however, the stakeholders in the workshop did not express general acceptance of a total phase-out. It is also fair to say that the phase-out pathway is less concrete, less detailed, and more problem-oriented than the net-zero pathway.

Participants agreed that a complete phase-out of oil and gas extraction by 2050 would likely require market conditions beyond the scope of the exercise and could not be achieved without an active supply-side intervention by the government – such as a Parliament-imposed ban on production, as was done in Denmark in December 2020. Other actions such as a steep CO₂ tax increase and end to new petroleum exploration and extraction licenses was discussed. The required short-term measures are all political in nature and rely on a government and a parliamentary majority willing to intervene and set conditions for Norway's most profitable sector. The government is therefore the key actor in achieving this transition pathway. To ensure such a radical change of national development is supported by civil society, the establishment of a national transition commission that would analyze social implications, identify skills requirements, and assess employment needs was suggested.

Workshop participants saw many risks associated with the radical policies needed for a national phase-out, not least the potential for a backlash from the public, challenges for the labour market, and the creation of short-term incentives to increase oil and gas production (and in turn, greenhouse gas emissions). A just transition towards an oil and gas phase-out would require

³ 2026 is when the effects of the oil tax package passed in 2020 during the Covid-19 pandemic are expected to end.

active interventions in existing labour and social policies.

Comparing the Two Pathways

Both pathways will lead to a further drop in employment in and revenues from oil and gas activities by 2050. This reduction comes on top of the already projected decline by about 65% by 2050 compared to today's levels, regardless of climate interventions, according to the 2021 White Paper describing Norway's future economic perspectives ("Perspektivmeldingen"). For both pathways, the workshop participants identified a strong need for state-driven transition initiatives to be put in place soon, and in the current decade, particularly to set targets, develop incentives, and start establishing offshore wind and CCS. Further, both emphasized the need to get 'people on board' and to create a common narrative, and the need to involve existing institutions of dialogue between the social partners. Both pathways differ from today's business-as-usual option and leave a role for the state in developing criteria for either a 2050 net-zero target (Scope 1, 2 and 3) or an oil and gas phase-out.

The most important difference between the net-zero and phase-out vision was that the oil and gas industry is perceived to embrace the net-zero vision as part of their license to operate, while the phase-out scenario was perceived as leaving no space for existing and derived business models, such as for blue hydrogen and ammonia production. A net-zero scenario is based on mainstream demand-side economics enforcing an internalization of market failures (cost of pollution to society) on the producer, leading to the development of net-zero and green transition technologies. The phase-out scenario, on the other hand, promotes supply-side policies considered by mainstream politics to have high negative economic impacts for the country and little impact on the global climate, as it is believed that Norwegian gas would be replaced by other producers (an issue hotly

debated in the national climate policy discourse).

The need for a just transition

A just transition requires a fair distribution of the costs and benefits of a transition, and a democratic process to get there. There are key issues to consider in how to achieve a just transition away from petroleum production: the implications for and involvement of labour, local communities and consumers, and for social spending and local economic development.

Both transition pathways carry implications for employment and the skill profiles of workers. While new energy sectors will bring new employment opportunities, transitioning away from petroleum production will also reduce employment in the oil and gas sectors. These workers will need assistance to update their skill sets and or move to other sectors, and assurance that conditions in emerging industries guarantee decent work.

Consumers and local industries require consistent and affordable access to energy. Electricity justice in the Norwegian context refers to potential conflicts of interest related to electrical hydropower as a scarce resource, partially driven by the Norwegian government's ambition to electrify offshore installations with land-based electricity but intensified by the energy price crisis of 2021-2022.

Finally, a reduction in oil and gas revenues and activities will have implications for government social spending and for local economic development. Reduction in activities may also release resources like capital and skills for other economic activities. New energy sectors will bring development activity and infrastructure to energy production sites, while areas associated with petroleum production (either directly or through value and supply chains) will see a reduction under both pathways.

A just transition towards an oil and gas phase-out will require active interventions in existing labour and social

policies. However, currently Norway's debates and efforts for a 'just transition' are limited and there is an urgent need for dialogue not only within the sector, but also across the divide between pro-industrial and pro-climate interests in relation to the Just Transition Advisory Committee that started their work in September 2022.

Policy Recommendations

How can the key stakeholders in Norway take concrete steps to effectively develop transition pathways for the oil and gas industry? The exercise suggests that insisting on connecting broader policy debates and activities with a concrete timeline can be very productive and potentially relevant for policy development. The research team formulated four concrete recommendations:

1. The government should establish **unambiguous transformation goals**. These will enable the setting of clear milestones, standards and regulation for all companies operating on the Norwegian Continental Shelf, through a tripartite approach.
2. The government should take responsibility for and ownership in forming a **transformation narrative**, meaning a coherent story of change over the course of a well-defined timeline that is communicated to the public and that can get support from key social actors.
 - For the petroleum industry, developing such a narrative would entail operationalising the mantra "develop, not wind up" (Norwegian "utvikle, ikke avvikle") in ways that are compatible with the targets of the Paris Agreement.
 - This narrative should be developed in close tripartite dialogue, a process that should also explicitly engage with other groups, such as environmental organisations, local communities and other relevant stakeholders to ensure long-term legitimacy and engagement. A commission with broad representation could be appointed to deliver a report establishing common foundations for this dialogue.
3. The government plans for engaging in industry partnerships and mutually binding agreements with social partners should be **firmly based on a just transition framework**. These initiatives should be founded in the tripartite system and include in their scope:
 - clear targets for CO2 cuts in petroleum production (scope 1+2+3), including clear criteria and regulations on how to achieve net-zero emissions, clearly taking into account emissions from oil and gas consumption (scope 3)
 - a roadmap for the development of sufficient renewable energy production, to avoid conflicts with energy-intensive, land-based industries, and robust long-term investments in transformational technologies like offshore wind and CCS
 - a zero-emission maritime sector, including associated businesses:
 - plans for developing the skillsets needed in the transformation of the industrial workforce
 - a strong social safety net to reduce insecurity for the future of staff.

About Oil and Gas Transitions (OGT)

Oil and Gas Transitions is an evidence-based programme which aims accelerate just transitions from oil and gas in Denmark, Norway, and the UK.

Our Approach:

- Evidence-driven, with leading researchers providing credible, academically verified recommendations on scenarios for oil and gas just transitions.
- A trusted neutral convener, able to effectively bring pluralistic positions to the table for effective exchange.
- We catalyse action by empowering key players in the oil and gas ecosystem with the evidence they need to develop their own visions, priorities, and interventions (e.g., campaigning, advocacy, institutional planning, policy design).

The OGT initiative is co-led by Climate Strategies and the Stockholm Environment Institute (SEI). Our partners include an interdisciplinary team of researchers from world-leading institutions such as Aalborg University, the University of Oslo, the Fridtjof Nansen Institute (FNI), Fafo and the University of Edinburgh, and it is made possible by the support from KR Foundation and Laudes Foundation.

Find out more at:
www.oilandgastransitions.org

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4. The social partners should actively
develop and propose measures
and interventions in line with
the overall goals. These could
include business standards,
financing frameworks, new
regulation, funding
arrangement, research and
innovation frameworks as well
as skills training programmes.

This policy brief is based on the following report:

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See www.oilandgastransitions.org

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