

## *Norway's election*

### ***Back to the left***

Sep 15th 2005  
From The Economist print edition

#### **An oil-rich country tilts leftwards**

FOUR years ago Norway's Labour Party suffered its worst election defeat since 1924. Yet the party, now led by Jens Stoltenberg, won the election on September 12th. Mr Stoltenberg will now form the country's first majority government in two decades. He and his two allied parties romped home with 87 of the parliament's 169 seats among them, giving him a comfortable majority over the outgoing centre-right coalition led by Kjell Magne Bondevik.

Mr Stoltenberg served a brief stint as prime minister five years ago. Yet the real question is not why he won, but why Mr Bondevik lost. Unemployment is low, wages are high, education is free and the United Nations has once again ranked Norway as the best country in which to live. **This enviable lifestyle is largely bankrolled by North Sea oil, the proceeds of which are stashed away in a Petroleum Fund now worth Nkr1.2 trillion (\$190 billion), and rising fast. Non-oil business is also booming: a survey of some 114,000 non-oil companies shows an average 43.9% increase in profits.**

Yet many of Norway's 3.4m-odd voters do not share the view that they live in nirvana. With all that oil wealth, they cannot understand why the welfare system has so many defects. There is a shortage of kindergartens, hospitals are understaffed, taxes are high, petrol costs as much as in non-oil countries and pensioners have problems making ends meet. A groundswell of such discontent swung the election Mr Stoltenberg's way. He made a string of lavish promises to cut child-care costs, guarantee kindergarten places, extend maternity and paternity leave and even hand out free fruit to schoolchildren.

It is easy to exaggerate Norway's leftward swing, however. Indeed, overall the right actually won more votes but fewer seats. A crucial factor was that Carl Hagen, the populist leader of the far right Progress Party, had his best ever election, taking his party's representation from 26 seats to 38 to become the second-biggest in parliament. Mr Hagen held the balance of power in the outgoing parliament and used it to full effect to squeeze concessions from the government. He has now lost that position.

Even so, over the next few weeks, Mr Stoltenberg may find it hard to form a coherent government. Besides divvying up cabinet posts, his three-party coalition must find common ground on some key policies. Labour is pro-European Union, its two partners are Europhobes. Labour favours gas-fired power generation, the others fret about pollution. Despite his election promises, Mr Stoltenberg is cautious about raiding the Petroleum Fund. Mr Bondevik, retired from the limelight to his rocking chair, will surely be praying for an unholy falling-out among the three new friends that might yet let the centre-right back in.

## 1. Background to the establishment of the Fund

The Petroleum Fund provides a buffer against fluctuating revenues from the petroleum sector. It helps to buffer fiscal and monetary policy against variations in the oil price and in production volume, which may be substantial.

The Petroleum Fund is the government's instrument for transferring wealth from oil and gas reserves to a broad-based portfolio of international securities. This provides a better balance between expected return and the expected risk associated with overall asset management.

The Petroleum Fund makes it possible to distinguish between using petroleum revenues and actually earning them. This makes it possible to avoid abrupt shifts in the industry structure, such as we have seen in many other countries with substantial revenues from natural resources, and contributes to sustainable business and industry in the long term.

**The Petroleum Fund helps to maintain a balance by distributing the petroleum wealth across generations. Although Norway's petroleum wealth is being depleted, the return on the invested capital will benefit many future generations.**

## 2. The Petroleum Fund of Norway

**The Petroleum Fund of Norway** is a government controlled fund owned by the people of Norway. Also called *The Petroleum Fund*.

The purpose of the fund is to invest parts of the large surplus generated by the Norwegian petroleum sector (mainly taxes of companies, but also payment for license to explore). It is predicted that revenues from the petroleum sector have reached their peak and will decline significantly over the next couple of decades. The Petroleum Fund was established in 1990 after a decision by the Norwegian Parliament to counter the effects of the forthcoming decline in income and to smooth out the disrupting effects of highly fluctuating oil prices. The fund is administered by the Norwegian Central Bank. It reached a portfolio value of over NOK 1 trillion (\$170 billion) in the first quarter of 2005. Since 1998 the fund was allowed to invest up to 50% of its portfolio in the international stock market.

**3. North Sea, arm of the Atlantic Ocean**, c.222,000 sq mi (574,980 sq km), c.600 mi (1,000 km) long and c.400 mi (640 km) wide, NW of Central Europe. It washes the shores of Great Britain, Norway, Denmark, Germany, the Netherlands, Belgium, and the northern tip of France. In the south the Strait of Dover connects it with the English Channel. The North Sea is deepest (c.2,165 ft/660 m) along the coast of Norway and contains several shallows, the largest of which is the Dogger Bank, midway between England and Denmark. The herring fisheries of the North Sea are economically important, but the cod and haddock stocks have declined significantly. **In 1970 oil was discovered under the seafloor. During the 1970s the oil resources were garnered by Great Britain, West Germany, Denmark, Norway, and the Netherlands.**

# **Renewable energy**

**Norway has great potential for new sources of renewable energy;** these sources include coastal wind, great amounts of biomass, heat pumps and geothermal energy, and solar heat, all readily available to be put into the production of energy.

In Europe, new renewable energy has allowed for increased production capacity. In Germany and Spain, energy from wind power is increasing rapidly, and biological fuels are taking increasingly larger portions of the energy market in France. **There is a similar development in the Scandinavian countries. Wind turbines are one of Denmark's most important exports, and have captured a large portion of the domestic market.** Modern bioenergy plants meet much of the demand for heat in Sweden and Finland. [Tangen et al., 1998] In 1998, Sweden increased its use of bioenergy by 5 TWh.

Norway lags somewhat behind in use of renewable energy. Norway's energy policy has concentrated almost entirely on the production of electricity in number of kWh, and very little on technology and industrial development. [Tangen et al., 1998] An important exception is in incineration of biological waste, where the Norwegian company Energos has become a world leader in the production of heat and electricity with very low emissions. **Export of such plants could be a considerable growth industry for Norway.**

**Development of new sources of renewable energy will create many new jobs.** One example is that an annual bioenergy production of 20 TWh will open up 6,000 to 10,000 permanent positions. [NFR 1996] In the EU, as many as 900,000 jobs will be created from renewable energy production. [EU Commission, 1997] In addition to new jobs, this development will lead to advancements in technology and export possibilities. Another example is in Glomfjord, where industry is concentrating on solar cell technology. This can put Norway in the position of being one of the leading countries in the world within solar cell production.

Norway has large resources of renewable energy, and by utilizing these, mainland oil consumption can be reduced and large amounts of electricity can then become available. This can be done by:

- Developing renewable energy sources such as wind, bio- and waste energy, geothermal energy, saline gradients, and tidal power;
- Using energy more efficiently;
- Making the transition from electricity to water-borne heat, such as heat pumps, bioenergy, waste energy, solar panels, and geothermal energy;
- Renovating hydropower plants and developing small hydropower stations.

Some of the additional electricity produced can be exported directly, or be used for expanding export-oriented energy-intensive industry. These measures can create many job opportunities and also be profitable in themselves. The development of potential power sources should be based on Norwegian industry. This would then create a new domestic market, which would eventually open up possibilities for export.