

FORTUNE AND ENVY

Address to the Academy

January 10, 2005

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The North Sea is a wide arm of the Atlantic Ocean that lies between Great Britain and the mainland of Europe. Seven countries- Great Britain, Norway, Denmark, Germany, The Netherlands, Belgium and France- boarder the North Sea. Millions of years ago, the North Sea was a warm, biologically brewing basin rich in sinking organic material.

Forty years ago, the city of Stavenger was in rapid decline. The former sardine capital of Norway, and probably the world, had lost most of its factories to over fishing, and the economy was in shambles. About 100 miles offshore, little known to the city's residents, a few international petroleum companies were drilling exploration wells on the belief that the sediment from long ago might yield significant oil deposits. In 1967, one of those companies found what they were looking for, a good sized find that was named the Balder Field. This stimulated more exploration, and in 1969, the huge Ekofisk field was discovered. Quiet, cobblestoned Stavenger is now one of the leading commercial centers for oil in the world. Tonight, we will hear the story of this great good fortune and the reaction of Norway's neighbors to the transformation of Norway from one of the poorest countries in Europe to one of the richest.

The Kingdom of Norway is very long. At 1,100 miles in length, it is farther from North Cape, above the Arctic Circle, to Oslo than Oslo is from Rome. It is also very narrow, rarely over 60 miles in width. Because of its hundreds of fjords that penetrate deep into the country, the coastline of Norway measures about 12,500 miles. The country extends so far above the Arctic Circle that the far north experiences continuous daylight from mid May to mid July. The Gulf Stream flows east and north after passing the United States, and that warm current results in a climate in Norway that is much milder than other countries so far north. For example, January temperatures along the coast average 45 degrees Fahrenheit. The warm current also keeps nearly all of Norway's seaports ice free during the winter.

The Vikings from Norway terrorized much of Europe for 300 years, beginning about 800 AD. They also ventured far to the west, discovering Iceland, Greenland, and the mainland of America. In those years, Norway was a collection of small isolated tribes, but about 900 AD, present day Norway was united under the first king, Harold I. It was a poor country that subsisted mainly by fishing. Because only 3% of the land was arable, much of the country's grain had to be imported from countries like Germany. In the 1300's, half of the population of Norway died as a result of the bubonic plague.

In 1375, the king of Denmark died. His daughter was already married to the King of Norway. She became the ruler of Denmark, and when her Norwegian husband died, also

became ruler of Norway. This began 400 years of Danish control of Norway. In 1807, during the Napoleonic Wars, Denmark sided with France against Great Britain. A British blockade of Denmark ensued, isolating Norway from Denmark, and Norway began to manage its own affairs. Five years later, in 1813, Denmark was defeated by Sweden, and the peace treaty resulted in Denmark giving Norway to Sweden. Denmark, however, was able to keep Norway's island colonies, Greenland, Iceland, and the Faeroe Islands. Norway did not recognize the treaty, and tried to break away from Sweden, but the rebellion was defeated by the powerful Swedish Army.

During the 1890's, Norway's merchant fleet was becoming one of the world's largest, but Sweden's foreign service handled Norway's shipping affairs in overseas trading centers. Norway demanded its own foreign service, and when Sweden refused, Norway declared independence in 1905. Sweden almost went to war again, but the Swedish King decided against it when he was told that 98% of the Norwegians had voted for independence. Norway has been independent since. In spite of the years of foreign domination, the Norwegians voted to establish a monarchy instead of a republic. They invited the Danish Prince Carl to be their first King. When he decided to marry, he chose the daughter of Edward VII the King of England. When Carl died, his son Olaf inherited the throne. By all accounts, Olaf was highly esteemed and beloved, and very much a man of the people. He skied on the Norwegian Olympic team, and frequently sailed in races on the waters near Oslo. When he died in 1991, his son, Harold, became King. Norway today stresses equality so much that the King is addressed simply as Harold.

No other country has had a greater percentage of its population immigrate to the United States. Since 1820 over 820,000 people have arrived in the USA from Norway. In the 1800's, the widespread poverty in Norway was exacerbated by the lack of available farmland. In America, Congress passed the Homestead Act of 1867, which allowed settlers to purchase land for \$1.25 an acre, if the settlers promised to farm and live on the land for five years. The difference between America and Norway socially and politically also pulled immigrants to the United States. People in Norway lived under a strict social system. For example, if a man of a high social class were to talk to a man of a lower class, the man from the lower class was expected to remove his hat as a sign of respect to the other man's higher status. Because the United States did not have an official caste system or such strict protocols, many Norwegians looked at the U.S. as an appealing place to live.

Politically, America also seemed like the land of opportunity and freedom to Norwegian immigrants. The fact that the U.S. was a republic where people held regular elections to place officials in power was very appealing. During the nineteenth century, Norway only gave the right to vote to an elite minority, whereas in the United States, white men had had universal suffrage since the 1820's. By the 1880's, many states were also looking into the possibility of allowing some women the right to vote. For non farmers, the potential wages available in the United States were far more attractive than those in Norway. For example, by the late 1880's, a sailor on an American ship could earn three or four times the wage of a sailor on a Norwegian ship. Jobs in mining up on Lake Superior could pay up to \$4 a day, while the same jobs in Norway paid the equivalent of

\$50 per year. Norwegian settlers wrote letters home praising America, and urging their relatives to follow. All of these factors led to the huge migration that ended up tying Norway and the United States together.

Norway was a non belligerent in World War I, but its merchant fleet lost about half of its ships to German submarines and mines while carrying cargo for the Allies. In World War II, Norway tried to remain neutral, but Germany invaded in 1940, attacking all its main seaports at once. The invasion and occupation made the Norwegians skeptical of the concept of neutrality, and they turned instead to collective security. Norway was one of the signers of the North Atlantic Treaty in 1949, and was a founding member of the United Nations. In fact, the first UN General Secretary, Trygve Lie, was a Norwegian.

When other natural resources were developed in Norway, from hydroelectric power to fisheries, the State had traditionally been very involved. For instance, the hydroelectric industry is 100% owned and operated by the country. The oil industry, however, required enormous amounts of money and technical know how, which Norway did not have. In 1969, it had no oil geologists, petroleum economists, or lawyers specializing in petroleum issues. Because of its huge shipping industry, representing at that time 10% of all the world's shipping, it had transported huge amounts of oil across the world's oceans. But concerning oil prospecting, production and refining, Norway had virtually no knowledge to build on.

In the rest of the world the oil producing countries were flexing their muscles. In 1971, the Organization of Petroleum Exporting Countries, OPEC, was established. Norway did not join then, and has remained outside of that organization. In 1973, the world's first oil boycott took place, as a consequence of the Yom Kippur War between Israel and Egypt. The signal to the world was a clear one. Oil was cast into power politics and it is still there as a global power in itself. The oil crisis of 1973 sent prices soaring, enough to justify the very expensive technology that was required to extract oil from the North Sea. That shift in oil prices was really the start of Norway's oil adventure.

Because of the tradition of state ownership of natural resources, a national oil company was established along with an Oil Ministry in the National Assembly. A Petroleum Directorate, whose job was to procure the necessary professional competence, was established. Norway took control of its own oil and gas operations, while encouraging the participation of international experts. The world's largest oil companies operate today on the Norwegian Shelf. In this way, Norway procured the widest possible professional expertise for the extraction of its oil resources. This policy paid off, and during the 70's and 80's, enormous new fields of oil and natural gas were discovered, one after another, fields that were among the largest in the world.

Today, Norway sits on approximately one half of the remaining oil reserves in Europe. Norwegian gas pipelines go from the North Sea to England, Germany, Belgium, and France; and Norway has become the world's largest operator of submarine gas pipelines. Norway supplies much of the oil and gas to Europe, and has become the world's third largest exporter of oil, trailing only Saudi Arabia and Russia. To put this into

perspective, Norway is about the size of New Mexico, and has a population of only 4.3 million people. Norway has the lowest population density in continental Europe. The largest city, Oslo, has a population of 520,000, very close to that of Fresno. What they do with all this money is very unique, and completely different from that of the wealthy few in the Middle East and Africa. But before we discuss Norway's choices, I would like to briefly describe how this oil is extracted from the turbulent waters of the North Sea.

In water up to 300 feet deep, units with long legs planted on the ocean floor can be used. In deeper water, which includes most of the North Sea, semi submersible drilling rigs are used. These are enormous structures consisting of an upper working platform supported by vertical columns that in turn rest on submerged pontoons. The majority of the structure extends deep into the water. The lower the pontoons lie beneath the surface of the water, the less they are affected by wave action. This reduces the heave, or vertical motion, and allows drilling to continue, even in rough seas. In waters up to about 1,000 feet deep, the semi submersible vessel is normally held in place by eight very large anchors, but in deeper waters, dynamic positioning is used. Dynamic positioning systems use GPS and computer controlled directional propellers to keep the vessel stationary relative to the seabed, compensating for wind, waves and current.

The latest semi submersibles can operate in 10,000 feet of water, and drill to a total depth of 35,000 feet. And they can hit their target at that final depth with an accuracy of 6 feet! These new units have housing for 120 men and can have 28 developed lines feeding oil to the surface at the same time. They can produce up to 200,000 barrels of oil per day. To drill from these depths of water, the oil companies moved beyond the old technology of having the drill grind away by spinning the entire pipeline from the surface. These deep sea units employ a turbine that is set just above the drill bit. The turbines are called "mud turbines" because they are powered by a mixture of a specific type of clay and water, pumped from the ocean's surface. The turbine then is geared to spin the drill bit, which is encrusted with industrial diamonds. The wells can be drilled vertically or at angles, and many wells eventually enter the oil deposits in a horizontal direction, in order to increase the yield. This is a big stakes game, with these semi submersible units costing \$250,000 a day to operate.

Norway is currently producing over 3 million barrels of oil a day, and Statoil, the largest company in their petroleum business, is 81% owned by the government. The international oil companies are taxed heavily. There is a 28% corporate tax, plus a special 50% tax on all offshore oil and gas companies. Norway has a diversified economy, with other industries like shipping, where the fleet is now the fourth largest in the world. Other industries include forest products, fisheries and aluminum, but the amount of money from the oil sector is remarkable for a country so small. Although Norway has enormous amounts of oil, it does not run on oil as much as it runs on water. Thanks to steep mountains and plentiful rain and snow, Norway satisfies 2/3 of its energy demand with hydroelectric power. Cheap and plentiful electricity is the reason Norway has such a large aluminum industry, although they must import all of the bauxite. Even in that cold environment, electricity heats most homes and businesses. As a result, of the 3 million barrels of oil produced each day, only about 200,000 are consumed in Norway.

The remainder is exported, and now accounts for nearly 50% of all Norwegian exports. Several years ago, the government made the wise decision to manage this wealth with an eye toward benefiting future generations as well as today's.

In 1990, Norway established a "Petroleum Fund" to counter the effects of the eventual decline in oil and natural gas income over the next 100 years. The Ministry of Finance has delegated responsibility of the operational management to the Norwegian Central Bank. The Petroleum Fund is the government's instrument for transferring wealth from oil and gas revenues to a broad based portfolio of international securities. Currently, the Fund's assets are invested in 27 developed and emerging markets. With a total return of 12.9% in 2003, the portfolio value reached 158 billion dollars by November, 2004. It is expected to reach over 200 billion dollars by 2010. In addition to the petroleum fund, all government debt was eliminated back in 1995.

In spite of all this accumulating wealth, Norway made a decision to maintain its high individual taxation rates. There is a flat 28% tax on dividends and a progressive income tax, reaching 60% for the most wealthy individuals. In addition, Norway has one of the highest sales taxes in the world, at 25% on most goods and services, except food, where it is "only" 13%. In spite of the taxation, Norway has developed a thriving industrial society. In 2003, the per capita GDP was \$51,750, the highest in Europe, and just behind the United States. In 2004, Norway had a 14% government surplus, the highest ever recorded in post war Europe. Money is being spent on infrastructure, with modern highways, ports, rail lines and communications. The 2003 United Nations Human Development Report named Norway the top place to live in the world, for the third year in a row. The ranking is based on a cocktail of indicators about health, wealth and social outlook. In case you were wondering, the United States was listed as #8, after Norway, Sweden, Australia, Canada, The Netherlands, Belgium, and Iceland. The New York Times Carol Williams put it this way: "Think about a place where lifelong financial security is guaranteed, no matter how many layoffs, stock market crashes or catastrophic illness come your way. Consider the psychological well being of belonging to a country where no one is homeless or hungry, where women and men are equal, where a pristine environment is reverentially protected, and where sharing the wealth with the world's less fortunate is a moral obligation."

Indeed, Norway donates a greater percentage of its GDP to foreign aid than any other country.

Almost everyone in Norway speaks English, and since all of the major industries are highly export oriented, business is conducted in English. Because of the mountainous landscape, they are a very athletic people, and nearly everyone knows how to ski. I found in my research a few examples of people complaining that the high taxation blunted peoples' entrepreneurial spirit, but for the most part Norwegians embrace their society. In 2001, Anne Ryel, the Deputy Justice Minister said, "In a welfare state, which is what we have built here, no matter who your parents are you have the right to an education or hospital care as good as anyone else's. Opportunities do not depend on social class, and no one wants to change that." Education is free through the University

level, and the health system includes free hospital care, physician compensation, and cash benefits during pregnancy and illness. An example of the health care system was described to me by a Fresno doctor who still has family in Norway. His sister developed a skin condition that her local doctor could not cure, so the government paid for a four hour cab ride to Oslo. After 12 days in the hospital, she received another free cab ride home, four hours to the north.

One reason Norway achieved such a high ranking in the United Nations report was its success in achieving gender equality. Women in Norway occupy half the Cabinet and parliament seats and fill more than 40% of judicial and academic posts. Anne Ryel, the Deputy Justice Minister, said "We place a very high value on both work and family and believe a woman should never have to choose one or the other. Most women with children continue to work in Norway, not because they have to but because they want to." Three year maternity leave, broad part time opportunities and creative application of telecommuting keep women in the work force. So do the generous benefits for both men and women of eight weeks of vacation, liberal sick leave, and day care that is reliable and inexpensive.

Ingerbriht Jensen, a media mogul in Norway, was quoted as saying "This probably looks like a communist regime, but here even the police are unarmed. Although crime does exist, there are about 50 killings per year (Fresno had 52 in 2004), Norwegians enjoy a sense of personal security unimaginable to most Americans. Most people leave their houses unlocked, and no one hesitates to stop and help a motorist in trouble."

But the success of Norway's social services is presenting the country with new problems. Good medical care for every citizen has raised life expectancy to one of the world's highest at 78.4 years, placing new demands on the health care system that has resulted in long lines for basic services. State assistance to single mothers is so generous that there is no need for a father's income. Half the children in Norway are now born out of wedlock. Also, because of the liberal sick leave, Norway has high absenteeism at work, compared to the rest of Europe. In spite of these problems, Norway had a budget surplus of 10 billion dollars in 2003, and the per capita GDP is 43% higher than the average for the rest of Europe.

Norway is territorially, politically, economically and culturally a part of Europe. Yet Norwegian participation in the establishment in the 1950's of what eventually became the European Union was not considered. Initially, the reason was that Norway's closest ally, The United Kingdom, did not take part. Great Britain eventually did join the EU in 1973, but Norway rejected membership in 1972 and again in 1994. There continues to be a deep seated reluctance to join. Professor Heiko Uecker, a Norway expert at the University of Bonn explains it this way: "It is a young country and it does not want to loose its independence so soon." But it is not just its political sovereignty that Norway is scared of loosing. The prospect of EU membership, particularly after the bloc's eastward expansion, worries many Norwegians that illegal workers might come into their country and pick off the generous welfare system and that the country would end up poorer, according to Professor Uecker. Indeed, Norway does not want to become a melting pot,

and immigration is strictly limited. In 2004, only 5% of the population were immigrants, and that statistic included immigrants from Sweden and Denmark.

So what do Norway's neighbor's feel about their good fortune? Their closest neighbor is Sweden, which ruled Norway until 1905. In the last century, Sweden has had strong industries such as Volvo, Saab, IKEA and famous artists like ABBA and the Cardigans. Norwegians, on the other hand, had mainly fishing and shipping until the 1970's. The Swedes were considered cosmopolitan, while the Norwegians were thought of as provincial. Now with oil, Norway has a stronger economy than Sweden. Historically, Norwegians have suffered a "Little Brother Complex" because of Sweden's greater stature. Both the Swedes and the Norwegians acknowledge this and there is even a name for it "Lillebrorskomplex." Now Sweden imports most of its oil and natural gas from Norway, which Sweden appreciates because it makes them less dependent upon the Arab states. According to my relatives in Sweden, the Swedes now look upon the Norwegians as "Equal Brothers."

That does not mean that there is not envy for Norway's oil. One letter to the editor of the Swedish newspaper Dagens Industrier exclaimed "Doing away with our union in 1905 was our biggest mistake ever!" Many wealthy Norwegians are buying property along Sweden's west coast, driving up prices, which is irritating to the Swedes. While traveling to Norway has become very expensive, the Swedes find it humorous that the Norwegians must travel across the Swedish border to buy cheaper food. One Swede, Gustav Gustavsson, was quoted in August, 2004. "Norwegians", he said, "do not work and they do not have any incentive whatsoever to work since they just drill for oil and take Friday off if they really decide to work at all. Of course we are jealous about the Norwegians' oil since we actually have to work to make a living."

One French woman wrote in May, 2004, in an Internet chat room that she knew many European ex patriots living in Norway for business who thought the Norwegians were savages without any culture or savoir vivre, who only think about money and on top of it they're also bigots. On the other hand, another person wrote in to say that the French feel that way about everyone, not just the Norwegians! A friend of mine who was born in Holland says his friends in Holland call the Norwegians "Blue Eyed Arabs" and "Kuwaitis on Skis." Perhaps in frustration for their growing problems with the Muslim population in The Netherlands, many of the Dutch are envious not only of the Norwegians' oil but also of Norway's strict limits on immigration. During the Euro 2004 soccer championships, the Danish paper Dagbladet called Norway a "stinking ex-Danish colony," adding that the man depicted in Edvard Munch's "The Scream" was probably Norway's happiest citizen!

Perhaps the unkindest cut of all is the claim by some of the Dutch that since Norway refuses to join the European Union, they are "not really European anymore." This cut is accentuated by the fact that "Europe" to an increasing extent means the enlarged European Union with the accession of the ten new member states in 2004. The EU is somewhat smug about their perceived hegemony. In June, 2004, the External Relations Newsletter of the EU declared that "the evolution of the EU is leading to an increasing

feeling of marginalization in Norway.” The EU wants Norway to join, so that it can have a share of Norway’s wealth. So far, however, Norway has sided with Switzerland in resisting. Interestingly, those two countries are also the two most wealthy in per capita terms.

Now that the EU has added the ten East European countries, some feel it is in danger of becoming too large and complex. Peter Tschopp, Professor of economics at Geneva University was quoted in August, 2004: “If I am honest with myself, I think there is a 50-50 chance of the whole thing imploding. The Marshall Plan will be nothing compared with the job of rebuilding these countries. The Czech Republic, for example, may look nice, but, inside, it is just painted ruins. Somebody will have to pay for all that.”

So the Swiss and the Norwegians have settled for a kind of semi detached relationship with the EU. Both countries have a series of bilateral deals with the EU which ensure the free movement of goods and capital, as well as common security arrangements. But both have retained their own political systems, currency, tax laws and labor market laws.

Norway evokes different reactions in outsiders. Envy at its vast oil wealth, irritation at the apparent nationalism in business affairs, and awe at the sheer beauty of its fjords and mountains. What no one can deny is that this small country has become a major player in Europe, and over the next 50 years, its wealth will translate into positions of influence in many of the largest corporations, not only in Europe, but also in the Americas.

The Norwegians are a little embarrassed by the fact that their good fortune is due in large part to luck, but I think they would still agree with J. Paul Getty, who said “My formula for success is rise early, work late, and strike oil.”