



Trust and Norwegian-Russian Energy Relations

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Abstract Trust in Norwegian-Russian energy relations is one in the making. Both sides have actively pursued to build trust, particularly over the past decade. The process has been driven by shared economic interests, the prominence of the petroleum industry in both countries, and a desire to improve political relations on both sides. Factors shaping trust are pre-existing on the one hand, and determined by the actors' signals on the other. Different organisational and cultural preferences likewise play a role in the development of trust and degree of co-operation. This study argues that the current level of trust is neither high nor low when compared to other bi-lateral relations with Russia. While trust appears to have contributed to breakthroughs in co-operation such as the resolution of the maritime border and new joint ventures in oil exploration, a lack of trust owing to diverging interests and market forces is inhibiting collaboration in the realm of gas. This potentially puts Norway and Russia on a path to increased competition for their primary gas markets, first in Germany and then in the rest of continental Europe. As the two main gas suppliers of the EU, this suggests serious implications on the future of European gas markets, the return on investment for their upstream gas industries, and energy security in the region.

Keywords Trust, natural gas, oil, trade, co-operation, Norway, Russia, Europe

JEL Classification

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Abstract

Trust in Norwegian-Russian energy relations is one in the making. Both sides have actively pursued to build trust, particularly over the past decade. The process has been driven by shared economic interests, the prominence of the petroleum industry in both countries, and a desire to improve political relations on both sides. Factors shaping trust are pre-existing on the one hand, and determined by the actors' signals on the other. Different organisational and cultural preferences likewise play a role in the development of trust and degree of co-operation. This study argues that the current level of trust is neither high nor low when compared to other bi-lateral relations with Russia. While trust appears to have contributed to breakthroughs in co-operation such as the resolution of the maritime border and new joint ventures in oil exploration, a lack of trust owing to diverging interests and market forces is inhibiting collaboration in the realm of gas. This potentially puts Norway and Russia on a path to increased competition for their primary gas markets, first in Germany and then in the rest of continental Europe. As the two main gas suppliers of the EU, this suggests serious implications on the future of European gas markets, the return on investment for their upstream gas industries, and energy security in the region.

Note on the Ukraine Crisis

The timing of research projects such as this is invariably subject to current events. And once again, one is reminded of the chance factor of history. Most of the study was conducted before the crisis in Ukraine emerged, and recent developments have undoubtedly influenced trust toward Russia across Europe, the EU imposed sanctions are but one manifestation of this. As a recent survey by Pew Research points out, the Ukraine crisis has damaged global public perceptions of Russia.¹ This example illustrates quite clearly the dynamic nature of trust and its impact on international co-operation. However, it does not change the fact that Norway and Russia maintain relatively good relations in the field of energy. This may be challenged in the years to come with geopolitical tensions in Eastern Europe, but the path that the Norwegian government and its petroleum industry have taken to build trust with their Russian counterparts is instructive nonetheless. What follows is an account of how parties developed trust, the geopolitical context in which they operated, and the impacts their efforts had on energy co-operation and political relations.

¹ *Russia's Global Image Negative amid Crisis in Ukraine* (Pew Research Center, 9 July 2014).

1 Introduction

This study is part of a larger research project examining the role of trust in international energy relations. It aims to answer the question, why do some international energy partnerships succeed while others fail? Proceeding from this question, there are three more that will frame the following analysis. Firstly, beyond economic and political factors, does trust play a determining role in the success or failure of these partnerships? And if so, what are its effects? Finally, what are the factors that contribute to building or undermining the development of trust?

An examination of Norwegian-Russian energy relations can address these questions in several ways. From a trust perspective, it illustrates a relationship currently in transformation where decision makers on both sides have clearly articulated the priority to build trust. As former Norwegian Foreign Minister explained,

‘our relationship with Russia is one of the three drivers behind our High North strategy. To engage with Russia in close/committed, long-term and sustainable co-operation based on mutual respect will be the key to the development of the High North... Engaging is the key word here – and engaging is our ambition with Russia after so many years of separation and distance. Friendship involves knowing one another. It involves trust, agreed rules of engagement, the freedom to agree and freedom to say so.’²

But more than just political rhetoric, recent events such as the resolution of the maritime border, illustrate breakthroughs in co-operation and attest to the development of trust. Another unique characteristic is the role of both countries as net exporters of oil and gas, which offers an opportunity to test the development of trust between suppliers who must deal with the tension between competing or collaborating. A common theme that those interviewed for this study articulated was the distinction between collaboration resulting from investment incentives versus customer-supplier or supplier-supplier relations. This confirms previous scholarship by Wenger et al. of the relevance of these paradigmatic conceptions.³ These three profiles are the most common in international energy co-operation and create different incentives and constraints for engagement, all of which can influence the effects and formation of trust. In the case of Norway and Russia, both are suppliers to the same market, Europe. This offers an opportunity to examine trust where tensions between competition and co-operation are present, and likewise, a comparison of the determining weight between trust and economic interests.

Furthermore the case incorporates power asymmetry in both economic and military terms. Historically, this has been a defining factor in Norwegian-Russian relations and continues to influence bi-lateral relations today.⁴ Norway has one twenty-

² Jonas Gahr Støre, *European Energy Perspective: High North – New Dimensions, Presentation to the Norwegian Parliament/Storting* (Norwegian Ministry of Foreign Affairs, 2012).

³ Andreas Wenger et al., *Energy and the Transformation of International Relations: Toward a New Producer-Consumer Framework* (Oxford: Oxford University Press, 2009).

⁴ Alexei Komarov, ‘*Predstavleniya O Norvegii V Rossii V Xx Veke*’ (Russian Academy of Sciences, 2012) 2.

eighth the population and about one quarter the GDP of Russia.⁵ Although an active member of NATO, it was the only member that bordered Russia during the Cold War, and Soviet power in the region incentivised Norwegian policy makers to seek security arrangements through an Atlantic alignment. And Norway's NATO membership and Cold War memories on both sides still influence preferences.⁶

Another aspect affecting trust is the changing nature of political and economic relations between the two countries. Efforts on both sides over the past decade led to the landmark decision to resolve the maritime border dispute, which previously blocked substantive energy co-operation. Today Norwegian and Russian politicians claim their aim is to build greater trust, and there are tangible signs to this effect.⁷

And finally this is one of those instances where theory mirrors actual events allowing the observer to better explain the implications of actors' decisions. The Prisoner's Dilemma model illustrates the potential long term advantages to building trust in which both sides realise optimal returns in the European gas market. The main commercial actors, Statoil and Gazprom, traditionally supplied the German and European continental markets through long term contracts. Because these two companies supply over half the German gas market, their dominant positions could allow them to maintain current long term contractual structures, allowing both companies to better plan operational investments.⁸ However, the spectre of short-term gains creates an incentive to 'defect' from co-operation. This is manifest in Germany's burgeoning spot market. Nevertheless their recent interactions in the Shtokman joint venture illustrate a growing tension between co-operation and defection, and this article addresses the implications of current developments.

This article is organised into three sections. The first provides a background of trust in the context of international energy trade and Norwegian-Russian bi-lateral relations. The second explores the determinants of trust, those factors that promoted or inhibited its development. And the third proposes implications on future collaborative projects and the European gas market.

2 Trust and International Energy Trade

⁵ International Monetary Fund, 'Report for Selected Countries and Subjects', *World Economic Outlook Database*, accessed 20 February 2014, <http://www.imf.org/external/pubs/ft/weo/2012/01/weodata/weorept.aspx?pr.x=72&pr.y=17&sy=2009&ey=2012&scsm=1&ssd=1&sort=country&ds=.&br=1&c=142&s=NGDPD%2CNGDPDPC%2CPPPDP%2CPPPDP%2CLP&grp=0&a=>.

⁶ Komarov, 'Predstavleniya O Norvegii V Rossii V Xx Veke'.

⁷ Støre, *European Energy Perspective: High North – New Dimensions, Presentation to the Norwegian Parliament/Storting*.

⁸ William Powell, 'European Gas Prices: Theory and Practice', *Platts*, 18 February 2013, <http://www.platts.com/news-feature/2013/naturalgas/eu-gas/index>.⁸ As suppliers of natural gas Norwegian and Russian companies traditionally did business with their European customers through long term contracts (LTCs) with fees indexed to oil prices at the two global hubs, West Texas Intermediate (WTI) for North America and Brent for Europe. Contracts range from fifteen to thirty years which gives the supplier a degree of security to make the long term investments required to develop and deliver to their customers in Europe. For more on LTCs versus spot market pricing see Powell : 2013.

In all of the complexities that an energy partnership entails, why would one explore the issue of trust? First, the actors themselves attribute the success or failure of joint ventures to a question of trust. As one member of Statoil's Board of Directors put it, 'there must be economic interests and policies for engagement, but trust is the glue that holds it all together.'⁹ Those interviewed often brought up the issue of trust to explain political breakthroughs and the degree of Norwegian-Russian energy co-operation.¹⁰ Therefore, to the extent that actors' perceptions construct their reality trust, ipso facto, becomes relevant.

The second reason concerns the nature of the international state system. In international energy trade, there is no central authority or enforcement mechanism to govern trade. Unlike consumer products which fall under the auspices of the World Trade Organization (WTO) there is no comprehensive multilateral trade regime for oil and gas. An explanation of why this is the case is beyond the scope of this analysis, but suffice it to say, most states treat energy trade as a security issue because their economies and military forces depend on access to either supplies or markets. Even supplier countries typically become dependent on revenues generated by natural resource exports. Consequently, natural gas trade is negotiated by and large bi-laterally.

And finally, trust is relevant to understanding international energy trade because it reveals regional variation in the conditions that shape preferences among decision makers. These may include geopolitics, historical suspicions, business-government relations, and established interpersonal networks. Yet they are often overlooked in academic and policy analyses concerning European-Russian energy trade.

Applying trust to international energy trade

One of the challenges of approaching an issue like trust is the conceptual disagreement among scholars on a working definition. Most admit that the issue is problematic, yet the level of academic interest speaks to its analytical significance in understanding social phenomena.

There are, however, aspects of the various scholarship evident in the Norwegian-Russian case. For example trust as the opposite of risk, as many economists have employed, was clearly apparent in the Norwegian-Russian case.¹¹ Furthermore, the expectation that partners would 'adjust their policies' to account for each other's preferences, resembling Keohane's definition of 'cooperation.'¹² Considering the range of research on trust it is no surprise that defining and measuring trust, remains elusive. Each discipline advances its own conceptualisation of trust, and within each camp there

⁹ Bjørn Tore Godal, 'Interview with Former Minister of Defence of Norway, Former Minister of Foreign Affairs of Norway, Former Norwegian Ambassador to the Federal Republic of Germany' (Oslo, 2 June 2012).

¹⁰ For a complete list of those interviewed, see Appendix.

¹¹ Oliver E. Williamson, 'Calculativeness, Trust, and Economic Organization', *Journal of Law and Economics* 36, no. 1 (1 April 1993): 453-86.

¹² Robert O. Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy* (Princeton University Press, 2005) 12.

is yet another layer of disagreement. Thus discord has often stifled applied examinations.

This study makes no attempt to reconcile these positions. Rather it takes a combined approach driven by three goals. The first is to simplify the process, so trust as a condition for co-operation will be the starting point for identifying and measuring it. Co-operation as an indicator of trust is the consensus approach in international relations and considering this study seeks to explain the role of trust between political and commercial groups in two different states, the IR approach makes an appropriate starting point.

Because simplifying the analysis risks losing sight of other factors, the second goal is to balance simplicity with input from experts and the actors themselves. The third goal is to differentiate between levels of trust among the parties. To accomplish this, it will look at degree of vulnerability, which is indicative of trust in most disciplines, and benchmark the patterns with two other cases representing high and low levels of trust.¹³ The study uses German-Russian and British-Russian cases to benchmark high and low trust.¹⁴

This study is also interdisciplinary insofar as it draws on conceptual tools from economics, international relations, psychology and sociology which comprise the majority of trust scholarship. The primary information sources are semi-structured interviews, public statements by the actors and existing analysis from academia, the media and think tanks. The advantage of this approach is to recognise preferences of the actors and explain why they arrived at their decisions. Because preferences are not outwardly seen and can be ever changing a quantitative examination of trust is problematic. The drawback of this study's approach, however, is the dependence on interpretation of the observer.

The methodology comprises semi-structured interviews with key decision makers and experts combined with ethnographic research conducted in the Oslo policy and petroleum industry community. To limit subjectivity the examiner, an 'outsider' to these cultures, spent considerable time interacting with many of the actors in their home country environment for a period of six weeks. This includes fourteen semi-structured interviews with analysts, negotiators and policy makers. The profile of the group includes executive level decision makers currently or formerly employed in the focus companies, negotiators and advisors of government and analysts from academia and think tanks. Because of the high commercial stakes and politically sensitive nature of international energy negotiations some of the interviews are non-attributed. However, the study makes direct references and citations whenever interviewees permitted. Because the ethnographic study was conducted in Oslo, and most of the interviews are with Norwegian organisations, the findings reflect more the Norwegian view rather than Russia, although the study benefits from nearly two years of professional interaction with representatives of the Russian petroleum industry.

The unit of analysis is the individual who influences the trade relationship. This includes employees of the national energy companies and policy makers. But the group

¹³ Denise M. Rousseau et al., 'Not so Different after All: A Cross-Discipline View of Trust', *Academy of Management. The Academy of Management Review* 23, no. 3 (July 1998): 394.

¹⁴ Marc Ozawa, 'Trust and European-Russian Energy Trade: The Case of Oil and Gas Partnerships and Long-Term Contracts', *University of Cambridge EPRG Working Paper Series*, no. 1409 (July 2014), <http://uaces.org/documents/papers/1201/ozawa.pdf>.

also comprises persons from the diplomatic services, think tanks, military and academic community, all of whom at one point or another affected the negotiations process and development of trust. For sake of simplicity the study refers to the collection of individuals representing Norwegian entities as the 'Norwegian side' or 'Norwegians,' and likewise persons representing Russian entities as the 'Russian side' or 'Russians'. However it recognises that each company and organisation represents individuals of multiple nationalities, typical of most international organisations today.

The next section covers the effects of trust in the Norwegian-Russian case and those factors most influential in its development. Here, regional and organisational variation becomes apparent, and heuristics may be tested and redrawn. To distinguish the determinants of trust, Angela Ayios's analysis of Russian-Western joint ventures provides a useful starting point, however, this study relies primarily on information from interviews and public statements.

The relationship between trust and co-operation

Although not aiming to resolve the conceptual debate on trust, this study does make claims about the relationship between trust and co-operation in the context of international energy relations. Firstly, it assumes that a type of trust is present when parties on both sides of international divide engage in collaboration because the size and scope of these projects, often ranging in billions of pounds and significantly impacting economies, raise the threshold of confidence for fulfilling expectations. As Arrow remarks, 'Virtually every commercial transaction has within itself an element of trust, certainly any transaction conducted over a period of time.'¹⁵

Where case studies such as these can make a contribution to our understanding of trust is by identifying *mechanisms* of trust. As previously mentioned, the conceptual debate of trust spans all the social science disciplines. On the one hand, psychologists tend to put more emphasis, as one would expect, on mental and cognitive processes while sociologists have focused on social institutions that foster or destroy relationships in society.¹⁶ The effects of trust vary with each perspective, such as the social fabric of a nation, economic development, and so forth. Responding to this constellation of ideas, one working group attempted to integrate all these different conceptions of trust to identify common claims and trends in the disciplines' variations. What Rousseau et al identified was that vulnerability was a feature that all the various conceptions of trust had in common.¹⁷ They went on to group the ideas of trust into four categories including deterrence-based, calculative, institutional and relational trust.¹⁸ This study

¹⁵ Kenneth J. Arrow, 'Gifts and Exchanges', *Philosophy & Public Affairs* (1972): 357.

¹⁶ For psychology analyses see Julian B. Rotter, 'A New Scale for the Measurement of Interpersonal trust1', *Journal of Personality* 35, no. 4 (1967): 651–665 and Tom R Tyler, *Why People Obey the Law* (New Haven: Yale University Press, 1990). For sociology see Diego Gambetta, ed., *Trust: Making and Breaking Cooperative Relations* (Oxford, UK; Cambridge, Mass., USA: B. Blackwell, 1990); Robert D Putnam, *Bowling Alone: The Collapse and Revival of American Community* (New York: Simon & Schuster Paperbacks, 2000); and Lynne G. Zucker, 'Production of Trust: Institutional Sources of Economic Structure, 1840–1920.', *Research in Organizational Behavior* (1986).

¹⁷ Rousseau et al., 'Not so Different after All' 394.

¹⁸ *Ibid.* pp. 398-9

refers to them as trust ‘mechanisms’ because each illustrates a vehicle for building trust. Deterrence-based trust concerns confidence that the other party will fulfil expectations because not doing could be harmful for both parties. A well known example of this in international relations is the nuclear deterrent in Cold War relations between the two superpowers.¹⁹ Both had a measure of confidence that the other would not deploy their arsenal because to do so could lead to a global nuclear war. In the context of energy relations, a deterrence based relation often comes in the form of ‘hostage taking’ where both parties trade assets, thus establishing a deterrent for breaches of contract or nationalisation of assets. And Norwegian and Russian companies structured their most recent partnerships to include this sort of exchange.²⁰

But the most common type of trust in energy relations is calculative. This refers to mutual interest forming the basis of trust. One party trusts the other because it is in their interest to follow through with commitments.²¹ And those interviewed for this study referred most frequently to mutual interest as the basis for trust.

Institutional trust is also apparent in international energy partnerships but usually secondary to calculative trust. In the context of international trade outside of energy, institutional trust is the most prevalent, and the World Trade Organization acts as the framework and primary enforcer of rules. But as previously mentioned energy is not included in the traded goods and services of the WTO. Despite the absence of an enforceable international arbitration mechanism for energy contracts remain an integral component of energy alliances albeit a symbolic one. They are typically under the jurisdiction of a designated state, usually neither of the states where the companies are located. A recent high profile arbitration between British and Russian partners took place in Swedish courts, for example.²²

Relational trust, as the name suggests, refers to judgements formed through interactions between the parties. ‘Information available to the trustor *from within the relationship itself* forms the basis of relational trust. Reliability and dependability in previous interactions with the trustor give rise to positive expectations about the trustee’s intentions.’²³ This form of trust is the de facto the highest level of trust because actors assume the greatest vulnerability. It is also the most difficult to establish because it requires the greatest time investment. Likewise it is most susceptible to pre-existing conditions which are beyond the actor’s control.

This study rates trust from low to high based on Rousseau’s four categories and measured against vulnerability. At the low end, there is deterrence based trust. Next is

¹⁹ Andrew H Kydd, *Trust and Mistrust in International Relations* (Princeton, N.J.: Princeton University Press, 2005) 22-3.

²⁰ Christopher Helman, ‘In Russian Oil Deal, Norway’s Statoil Follows Exxon’s Lead On “Hostage Taking”’, *Forbes*, accessed 20 February 2014, <http://www.forbes.com/sites/christopherhelman/2012/05/07/in-russian-oil-deal-norways-statoil-follows-exxons-lead-on-hostage-taking/>.

²¹ Rousseau, Denise M., Sim B. Sitkin, Ronald S. Burt, and Colin Camerer. "Introduction to Special Topic Forum: Not So Different after All: A Cross-Discipline View of Trust." *The Academy of Management Review* 23, no. 3 (1998). Pg. 399

²² Helman, Christopher. "In Russian Oil Deal, Norway's Statoil Follows Exxon's Lead on 'Hostage Taking'." *Forbes*, 2012.

²³ Rousseau et al., ‘Not so Different after All’ 399.

calculative at the middle-low level followed by institutional at middle-high. And relational represents high trust.²⁴ The distinctions between types, however, are not black and white. Most interactions will exhibit a combination, but the general tendency is a greater representation of low trust mechanisms, such as asset exchange, at the outset with progressively more high-trust mechanisms over time.

Empirical studies like this can contribute by establishing practical measures and a rating system of trust based on the mechanism. All four types were apparent in this Norwegian-Russian case and a previous study that included German, British and American energy companies. Moreover, the emergence of each mechanism appeared to fall into a staged pattern of co-operation, ranging from early to late stage projects. This pattern is what one would expect considering the rising level of vulnerability as costs and exposure tend to grow over time.

Although more research is needed to test this pattern, it appears that parties will structure early stage projects and their first partnerships using a combination of deterrence and calculus based mechanisms to ensure fulfilment. Although there is no international institution for oil and gas trade, such as the WTO, contracts subject to a chosen court jurisdiction will also be deployed, however, the parties recognise that they are not enforceable. Consequently, the primary mechanism of assurance will be an exchange of assets and the recognition of mutual (economic) interests. If there is benefit to do so, the parties are likely to deepen their level of engagement and likewise vulnerability, thereby depending ever more on institutional arrangements such as contracts, or on the relationship with the other party. When the mechanism is the relationship itself, both parties assume the highest degree of vulnerability, and thus, it follows the highest level of trust. Therefore, this study asserts that, in addition to identifying the trust mechanism deployed between the Norwegian and Russian parties, it is also possible to make claims about the level of trust between the parties. To this end, section 4 will address the determinants, mechanisms and current levels of trust in the Norwegian-Russian case.

The relationship between trust and interests

Although the focus of this analysis is to establish what effect trust had on interactions between Norwegian and Russian decision makers, it goes without saying that trust is not the only factor at play. Trust interacts with other considerations, namely mutual interests. It is often the case that mutual interests are the impetus for exploring co-operation and then engaging in co-operation.²⁵ Without a reason to co-operate, there would be no need to trust. Previous scholarship on trust illustrates a strong relationship between mutual interests and trust, one that is necessary, if not always sufficient, condition for co-operation.²⁶ These interests are always present in the

²⁴ See Appendix 2

²⁵ Robert M Axelrod, *The Evolution of Cooperation* (New York: Basic Books, 1984); Kydd, *Trust and Mistrust in International Relations*.

²⁶ Guido Møllering, 'Trust, Institutions, Agency: Towards a Neoinstitutional Theory of Trust', in *Handbook of Trust Research*, ed. Reinhard Bachmann and Akbar Zaheer (Cheltenham, UK; Northampton, MA: Edward Elgar, 2006); Rousseau et al., 'Not so Different after All'; Williamson, 'Calculativeness, Trust, and Economic Organization'.

course of interactions and when interests diverge too much, co-operation will end whether or not trust is present. What is important to note is that trust creates preferences to co-operate, all things being equal. It does not, in and of itself, suffice for co-operation. Rather, it 'greases the wheels' of co-operation.²⁷

With respect to Norway and Russia energy relations, the mutual interests are considerable and proceed from geography, their proximity as bordering states and natural resource endowments. Firstly, both countries are petroleum exporters that share not only a maritime border but also a terrestrial one. Notwithstanding the significance of the 6 km land border, the maritime border impacts three different industries critical to their economies. They are petroleum, fishing and shipping. Petroleum is arguably the most important representing 21 per cent of Norway's GDP in 2012 and 21 per cent of Russia's GDP in 2011.²⁸ The second is fishing, which is more critical to Norway than Russia because it represents the second largest export industry. However, before the first oil discovery in 1969, fishing was Norway's primary export product, and the industry continues to retain a prominent position in the Norwegian economy.²⁹ It also serves a special role in the Norwegian cultural narrative considering Norway's long tradition of fishing. In fact, the first economic co-operation between Norway and Russia occurred between their fishing industries who cooperated in the 1970s to avoid overharvesting and coordinate shared fishing grounds in light of, what was at the time, a maritime border dispute.³⁰

The third interest, which is both a commercial and security consideration, is shipping. Owing to the changing climate conditions of the High North region, the increasing availability of non-frozen waters opens ever more transit corridors.³¹ They will require secure and stable maritime borders and coordination between these neighbouring states. This list of interests is certainly not exhaustive, but these have arguably had the most determining influence on co-operation in the field of energy.

It is also important to note that Norway and Russia share other mutual interests in the realm of security and military co-operation, migration and trade. As most border states have an interest in stable relations with their neighbours, this likewise encouraged bi-lateral trade and military co-operation. Since the end of the Cold War, stable and positive relations have taken a more prominent role given that both states used to sit on opposite sides of the political and security divide with Norway as one of the founding members of the Soviet Union's primary rival security organisation, NATO.

²⁷ Francis Fukuyama, *Trust: The Social Virtues and the Creation of Prosperity* (London: Hamish Hamilton, 1995) 26.

²⁸ *World Energy Outlook* (International Energy Agency, 2011); 'The Petroleum Sector – Norway's Largest Industry - Norwegian Petroleum Directorate', accessed 13 February 2014, <http://www.npd.no/en/Publications/Facts/Facts-2012/Chapter-3/>.

²⁹ 'Statistics Norway', accessed 13 February 2014, <http://www.ssb.no/en/forside;jsessionid=BBA2C706DD8FBF0F3F8FFF4A2F8BBB7.kpld-as-prod11>.

³⁰ 'Joint Russian-Norwegian Fisheries Commission', accessed 13 February 2014, <http://www.jointfish.com/eng>.

³¹ Rachel Chu, 'The Melting Cog', *Climate of Opinion*, The Stockholm Network's Energy and Environment Update, no. 12 (March 2009): 3.

However, these impact energy relations only marginally whereas petroleum, fishing and shipping interests drive co-operation more directly in the field of energy.

Another important interest which relates to all of the aforementioned is the resolution of the maritime border. Because an established border establishes the legal and practical parameters of exploration and development in the Barents Sea, it was critical for both sides to resolve the dispute. The disputed region is thought to contain 20.6 billion barrels of hydrocarbon reserves, oil equivalent.³² A resolution was also important for establishing fishing rights and transit shipping lanes. The resolution of the maritime border was a driving force behind political co-operation for the past decade, and now that it is complete, it remains to be seen if policy makers will treat bi-lateral co-operation with less urgency because this important milestone is now overcome.

Mutual interests in petroleum also drive co-operation between Norwegian and Russian energy companies. The most significant was the gas development company, Shtokmann. Although Norway's Statoil is no longer a stakeholder in the project, it was initially envisaged as a top tier natural gas project to supply global markets through LNG and continental Europe through pipeline transported gas. Recently however, Statoil withdrew from the consortium, and it is believed the main stakeholders, Gazprom and Total, will delay Shtokmann owing to changing market conditions, namely lower gas prices in Europe and the United States.

Related to the maritime border resolution is evolving territorial landscape of the High North where borders and territorial rights are still in flux. Because its untapped hydrocarbon potential and new potential shipping transit lanes, all of the Arctic countries, particularly both sharing border, will need to cooperate. And the High North is an articulated high priority issue for both governments.³³

Still, both Norway and Russia are petroleum exporters whose main market is Europe. Even before the resolution of the maritime border, this common market drove a degree of co-operation with respect to coordinating market territories. As explains, there was an implicit understanding from both sides not to infringe on the other's legacy region. Today, there is still meaningful co-operation in the upstream joint ventures of Statoil and Rosneft, which have shared projects on both Norwegian and Russian territory.

But because of the petroleum industry's place of prominence in their economies, it will likely continue to be a strong driver of co-operation in the foreseeable future. What is important to note is that mutual interests provide the reason to cooperate. Trust interacts with mutual interests with every iteration of co-operation, each round providing more information and evidence that the other side is or is not trustworthy. The level of trust will then set preferences and parameters for subsequent rounds of co-operation. Over the past decade, mutual interests, the experience of co-operation and

³² 'Norway Ready to Drill along Russian Border', *Barentsobserver*, accessed 22 February 2014, <http://barentsobserver.com/en/energy/2013/04/norway-ready-drill-along-russian-border-23-04>.

³³ Støre, *European Energy Perspective: High North – New Dimensions, Presentation to the Norwegian Parliament/Storting*; Katarzyna Zysk, 'Russia's Arctic Strategy: Ambitions and Constraints', *JFQ* 57, no. 2nd Quarter (2010), http://www.geopoliticsnorth.org/index.php?option=com_content&view=article&id=153:russias-arctic-strategy-ambitions-and-constraints&catid=35:russia&Itemid=103.

observed behaviour have been positive overall, thus reinforcing trust that made the resolution of the maritime border possible.

Geopolitical context

‘A mouse does not pick a fight with the bear.’ – from the character, Tom Jensen, on Norwegian-Russian relations, from the Cold War film, *Orion’s Belt*.³⁴

In addition to mutual interests, the historical interactions and regional geopolitics are also important as they set the background for current co-operation in energy. With respect to the history of bi-lateral relations, they share two hundred years of interactions. As an early Russian explorer of Norway described to his colleague in the early twentieth century, ‘Norway is a wonderful country, people work here, love their homeland, love freedom, appreciate science, appreciate art...’³⁵ Since Russia and Norway began diplomatic relations after Norway’s dissolution of the Swedish union, interactions and relations between the two countries have been relatively peaceful. As the scholar of Russo-Norwegian relations, Alexei Komarov, notes, the Russian perception of Norwegians has been, on the whole, quite positive, but one shaped by power asymmetry.³⁶ The former Norwegian Foreign Minister also expressed this view on the current status.³⁷ As Tamnes explained, ‘the defining feature of bi-lateral relations with Russia is asymmetry.’³⁸ Although Norway and Russia were on opposite sides of the Cold War, relations between the neighbours remained relatively peaceful. The Soviet Union’s policy to Norway as a NATO member state was to encourage it to become neutral.³⁹ As previously mentioned, there was even commercial co-operation during this period focused on coordinated fishing.

On the other hand, the border dispute persisted during the Cold War period with the highest tensions centred on the Svalbard Archipelago of islands. Officially, both sides recognised Norway’s sovereign rights of administration of the islands.⁴⁰ However, the Soviet Union, along with the forty other signatory countries of the 1925 Svalbard Act, had the rights to access the islands for commercial and scientific purposes, and a Russian mining community in Barentsburg maintained a permanent Soviet footprint

³⁴ Jon Michelet, Ola Solum, and Helge, Ousdal, Sverre Anker Jordal, *Orions belte* ([Oslo]: Viafilm, 2005).

³⁵ Ivanov-Razumnik, *Tvorchestvo i kritika; stat'i kriticheskie, 1908-1922*. (Peterburg, Kolos, 1922) 19.

³⁶ Alexei Komarov, ‘*Predstavleniya O Norvegii V Rossii V Xx Veke*’ (Russian Academy of Sciences, 2012) 2.

³⁷ Støre, *European Energy Perspective: High North – New Dimensions, Presentation to the Norwegian Parliament/Storting*.

³⁸ Rolf Tamnes, ‘Interview with Prof. Dr. Rolf Tamnes, Former Director of the Norwegian Institute for Defence Studies’ (Oslo, 6 June 2012).

³⁹ Alexei Komarov, ‘Norway in Soviet Foreign Policy Thinking of the Khrushchev Period’ (Russian Academy of Sciences, 2012).

⁴⁰ Sarah Wolf, ‘Svalbard’s Maritime Zones, Their Status under International Law and Current and Future Disputes Scenarios’, Working Paper FG 2, no. 2 (January 2013).

that persists to this day.⁴¹ This territorial ambiguity made for occasional confrontations between Norwegian and Russian authorities. One recent example occurred in 2011 when Russian fishing boats were escorted by Norwegian Coast Guard boats out of the Svalbard waters.⁴² There is even a Norwegian Cold War film titled, 'Orion's Belt,' which illustrates the territorial tension over the islands.⁴³

With respect to geopolitics, the bi-lateral relations of Norway and Russia are also shaped by Norway's status as a founding NATO member and the power asymmetry. Russia was one of the first countries to recognise Norway after its independence in 1905. As previously mentioned, Soviet policy towards Norway focused on drawing it away from NATO to a neutral status. Although this is no longer Russia's official policy, NATO encroachment on Russia's borders is still the perception held by many Russian policy makers and this security dynamic exists to this day, although less pronounced since the end of the Cold War.

Still, some Cold War interactions were positive. For instance, Norway was the only NATO member with a direct border to the Soviet Union, and both sides have respected the border delineation, with the exception of the maritime border as previously mentioned. The outcome of the second World War is likely determining. Unlike Finland, there was no war with the USSR, and the Red Army is still considered to have liberated northern regions of Norway, which Germany occupied during the war. The fact that the Red Army left Norway is also important since this was not the case in many bordering states after the war. This point cannot be understated considering the Soviet military presence in Eastern Europe, and its military confrontation with Finland continue to create suspicion and, at times, tension between Russia and these states to this day.

Power asymmetry influences local geopolitics underscoring the Norway's concern to maintain good relations with such a large neighbour. During the Cold War period, this was even more pronounced considering the Soviet Union's status as one of the two superpowers. From Russia's perspective, power asymmetry means that Norway is less of a priority than larger and more influential states such as the US and China. This was reflected in the USSR's emphasis on dealing with Norway as part of a group, Scandinavia on the one hand and NATO on the other.

Recently, however, policy makers on both sides increasingly recognise the need to maintain good relations. This manifests in security, economic and cultural co-operation. Firstly, Norwegian and Russian military forces have engaged in joint exercises on the land border. There is also increased movement across the border with nearly twelve thousand Russian nationals living and working in Norway and a visa-free border zone that allows residents of Skorskog (Norway) and Boris Gleb (Russia) to move freely across the border.

⁴¹ Trude Pettersen, 'More Russians on Svalbard', *Barentsobserver*, accessed 13 February 2014, <http://barentsobserver.com/en/arctic/2013/02/more-russians-svalbard-12-02>.

⁴² Trude Pettersen, 'Russia Wants to Discuss Svalbard Fisheries Protection Zone', *Barentsobserver*, accessed 13 February 2014, <http://barentsobserver.com/en/articles/russia-wants-discuss-svalbard-fisheries-protection-zone>.

⁴³ Michelet, Solum, and Jordal, *Orions belte*.

3 Norwegian-Russian Energy Relations

This study benefits from interviews with actors and experts involved at various stages of interactions between Norwegian and Russian executives, policy makers and experts who have researched the cooperative engagements that are at the centre of this case. As might be expected, there were some conceptions of trust common to all groups, such as fulfilling expectations and signalling interest. On the other hand, patterns of variation in preferences emerged between the Norwegian and Russian parties. For example, the Norwegian parties emphasised process and adherence to contractual obligations in a staged and timely fashion. They associated these characteristics with confidence and likewise trust.⁴⁴ Actors from the Russian side tended to emphasise the individual's qualities such as perceived character and the interpersonal relations. In terms of signalling, it manifests in two ways, through interpersonal relationships and gestures recognising the other party's interests even when not explicitly articulated or included in a contract. Although contractual expectations may overlap with relationship expectations, they focus on timelines and procedures. Relationships are more open and flexible, and it is often a clash between these two types of expectations that can lead to an erosion of trust. The breakdown in negotiations between Norwegian and Russian parties over their primary gas joint venture point to a clash of not only economic interests but also expectations, and as such, reinforces the need for greater understanding of cultural differences.

Although Norwegian and Russian parties broadly shared the same ideas of trust, they differed in terms of relational versus contractual orientations. The following encapsulate the different factors emphasised in trust formation between the Norwegian and Russian sources. In the absence of a survey on trust, they represent an interpretive distillation of comments made by those interviewed and statements in the public record. It is not intended to represent definitively the views of relevant actors. Rather they offer a sort of indicator of the different qualities and thought patterns that emerged when actors reflected on trust in the context of Norwegian-Russian energy negotiations. Although the popular measuring trust is a generalised survey, this rules out the important distinction of the varying conceptions of trust that exist across national and organisational borders. Noting the limitations and risk of subjectivity in this researcher's interpretation, the two proposed conceptions are the following:

Norwegian conception of trust:

'The belief that the counterparty will fulfil expectations based on mutual interest, contractual agreements, international law and previously observed behaviour.'

Russian conception of trust:

⁴⁴ It should be noted that energy companies that engage in international partnerships are often quite international themselves, often staffed with 'home' nationals and increasingly sourcing talent from around the world. However, at the executive level comprising the management committee and board of directors, they are usually majority staffed with 'home' nationals. As such, it is possible to make claims about not only organisational but also national preferences.

‘The belief that the counterparty will fulfil expectations based on mutual interest, contractual agreements and previously observed behaviour, *while acting in a manner that demonstrates the counterparty’s interests.*’

They are, for the most part, similar with the exception of ‘recognition of the counterparty’s interests’, which incorporates the interpersonal emphasis of the Russian actors. With this distinction in mind, it is now possible to examine the effects of trust on Norwegian-Russian energy relations.

Trust and Norwegian-Russian energy relations

The current level of trust observed in this case is neither high nor low when compared to other bi-lateral energy relations, however the development of trust is still at an early stage. And there are reasons to believe it will continue to develop given the current trajectory of interactions. The reference for ‘high trust’ is the German-Russian energy relation, which has a history of over 40 years of deep engagement at both the commercial and political levels. Collaboration was primarily in the gas sector, which Russian officials consider more strategic than oil. This coupled with the supplier-consumer dynamic and a high degree of economic interdependence has reinforced co-operation. On the low end of the trust spectrum, there is the British-Russian relation, which is younger dating back to the late 1990s. It is based on commercial investments rather than energy supply deliveries to a consumer region. Although it began as an oil and gas joint venture, collaboration today is in the oil sector only. Recent public disputes at both the political and commercial levels have haunted the relation. Therefore, considering Norwegian-Russian energy partnerships are less than a few years old the current level of co-operation in oil and gas speaks to the efforts on both sides to build trust. Obstacles, however, remain which this study addresses in the implications section.

In order to identify the presence of trust, this study uses the ‘trust markers’ from existing literature combined with input from experts and decision makers. The result provides necessary but not sufficient conditions. Thus any claims can only provide evidence of the probability of causal relationships between observed behaviour and trust.

This study argues that a mid-level of trust probably exists between key decision makers of the Norwegian-Russian relation, but it is still in its relative infancy. The events leading up to the current state reflect a presence of trust at specific points, and at others they demonstrate the *intention* of one or both sides to build trust rather than a reflection of trust as such. To identify the presence of trust and its type, this study looks for types of co-operation (oil or gas), costly signalling, statements made by the actors about one another, and the degree of vulnerability that each side assumed in their interactions. The following evidence attests to the likelihood that trust existed and played a role at specific time when actors made decisions. They are listed by degree of vulnerability because, assuming that vulnerability is the universal condition of trust, it follows that the higher the risk, the more likely it that trust was present. And the sum of these events illustrates trust in formation.

Geological data sharing

In the petroleum industry there is one type of information prized above all others, geological data. Companies and governments guard this data at great expense because the cost of exploration is the most expensive activity in upstream operations. A producer may drill many wells before finding an adequate field, and many companies will go bankrupt exploring. Although new technologies have made profiling fields more efficient, geological data is still perceived as the most valuable information of any upstream petroleum company, and as such, the sharing of sensitive geological data necessitates trust.

At the macro level, geological data can impact the energy sector of oil and gas exporting states, especially those whose economies depend heavily on it. For both Norway and Russia, the energy sector comprises the largest share of their GDPs, and as such changes in their reserves are strategic to national interest, not to mention the global price of oil.

Yet this is just what the governments of Norway and Russia recently started. As one British observer who sits on the Arctic Council recently explained, 'a little known fact is that the Norwegians and Russian have started to share their geological data...the significance of the trust between both sides cannot be understated.'⁴⁵ But the type of trust this particular collaboration represents is deterrence based and calculative because both sides assume significant risk in sharing information, and as such the defection of one party from this interaction may be deterred by other party divulging sensitive information. It is also calculative because each party recognises they have a mutual interest in developing a greater understanding of the geological profile of offshore fields and likewise the potential for economic gain through oil and gas extraction.

Maritime border resolution

The next major cooperative breakthrough is the resolution of the maritime border. In 2011, the governments of Norway and Russia reached an agreement over a longstanding dispute on the delineation of their shared maritime border. Although sharing a small land border, the maritime border remained contested since the end of the Second World War. Before the development of Norway's petroleum industry, the main economic issue was fishing rights in the disputed waters, particularly important to Norway on whose economy it depended. The discovery of hydrocarbon deposits in the region only intensified the impasse in negotiations. Security also played a role considering Norway's membership in NATO and access to the Atlantic for the Soviet and Russian navy from the port city of Murmansk.

The significance of the resolution represents the removal of the main obstacle to Norwegian-Russian energy co-operation. Since the event, the level of energy co-operation has increased substantially.⁴⁶ The new border lies at the midpoint of the

⁴⁵ Representative of the UK at Arctic Council, non-attributed under Chatham House Rules, 'Presentation by UK Negotiator in the Arctic Council at Industry Event' (Cambridge, 3 April 2012).

⁴⁶ Although Statoil maintained a presence in Russia with limited production before the resolution of the maritime border, the size and scope of a 10,000 barrel per day (equity equivalent of the Kharyaga production sharing agreement) pales in comparison to the post-resolution projects with Gazprom, in the case of Shtokman, and offshore exploration in the Sea of Okhotsk, in the case of Rosneft.

contested area.⁴⁷ The resolution was the result of years of negotiations and represents an important political signal. As one senior Norwegian negotiator explained, 'it shows a presence of trust and also the intention to build it based on international rules and law.'⁴⁸ As with the sharing of geological data, this type of trust is deterrence-based and calculated trust. In the first instance, both sides compromised with a more or less equal loss of contested territory. Where they gave up territory, there was also recognition, that with the resolution of the maritime border, they could finally move forward with hydrocarbon exploration. Thus, both understood it was in their interest to cooperate and should one renege on the agreement, they would also suffer economically.

Proliferation of joint ventures

With respect to economic co-operation joint ventures necessitate interaction, and as previously mentioned the sheer cost and scope of projects reflects a presence of trust.⁴⁹ Trust will form as a result of exposure to one another and greater familiarity between the parties.⁵⁰ In the petroleum industry, international co-operation usually takes the form of joint ventures, project collaboration under a services agreement, or long term contracts. For Statoil the maritime border dispute was probably not the primary obstacle for co-operation because Statoil has maintained a business development office in Russia since the late 1980s and has taken part in production sharing agreement (PSA) with Total in the Russian northeast. Rather, the opposition likely came from Russia whose politicians have much more say in the day to day operations of Russian energy companies than Norwegian officials for Statoil.

When the maritime border was finally resolved it opened the possibility for significant collaboration and shortly thereafter, Statoil was invited to take part in a major joint venture with Gazprom to explore, produce, and transport natural gas from the Shtokman field. To be sure there were other compelling reasons. Gazprom lacked the technical expertise Statoil could provide for offshore production in the technically challenging arctic region. Shortly after the formation of Shtokman Development AG, Statoil and Rosneft also announced a partnership to jointly develop offshore fields in the Sea of Okhotsk. Although economic interests were at the forefront, the resolution of the maritime border raised the level of trust, particularly among Russian actors to cooperate with Statoil.⁵¹ As with the previous events of co-operation, the recent partnership agreements represent a combination of deterrence based and calculated trust. Its structure reflect this in two ways, firstly through the measure of an exchange of assets, or 'hostage taking' in the industry parlance. While the main projects are located in Russia, Statoil, and ostensibly the Norwegian government, agrees to give access to

⁴⁷ See Appendix I

⁴⁸ Rolf Einar Fife, 'Interview with Senior Level Negotiator from the Norwegian Ministry of Foreign Affairs Involved in the Maritime Border Resolution between Norway and Russia' (Oslo, 15 June 2012).

⁴⁹ Axelrod, *The Evolution of Cooperation*.

⁵⁰ Daniel J. McAllister, 'Affect-and Cognition-Based Trust as Foundations for Interpersonal Cooperation in Organizations', *Academy of Management Journal* 38, no. 1 (1995): 24–59.

⁵¹ Representative of the UK at Arctic Council, non-attributed under Chatham House Rules, 'Presentation by UK Negotiator in the Arctic Council at Industry Event'.

Gazprom and Rosneft to participate in projects on the Norwegian Continental Shelf (NCS). Because there is an obvious mutual interest to cooperate, technology and investment for equity and production sharing, both sides also have the assurance the other will not renege on the agreements. As the current state of Norwegian-Russian negotiations attest the cost of terminating the relationship, \$ 336 USD for Statoil, grows higher with every round of co-operation.⁵²

Public funding for Russia-dedicated analyst teams

Funding for joint research and the development of regional expertise is also important for the development of trust for two reasons. Firstly, as Ayios and others explained, familiarity and information have a direct influence on the development of trust.⁵³ Much like repeated interaction, it provides evidence of how trustworthy the other party will be under certain circumstances. This informs decision makers in petroleum companies in addition to policy makers. Secondly, these projects provide an opportunity for collaboration and thus greater interactions. One such example is a joint commissioned research project between Norwegian and Russian academic institutions to explore their 200 years of shared history. The third not so obvious reason is these projects send a signal to the other that they matter. Other examples include joint research initiatives and sister organisation exchanges between institutes. The Geopolitics of the High North study initiated by the Norwegian Ministry of Defence engaged scientists from the University of Oslo, the Fridtjof Nansen Institute, the Norwegian Institute for Defence Studies, the Russian Academic of Sciences and the Moscow State Institute for International Relations.

Where financial support to develop Russian experts has fallen since the end of the Cold War, the Norwegian government continues to prioritise the development of these skills through Russian language and area studies programmes in its academic institutions. Funding for such programmes signals the interest and relative importance that the other plays in politics and commerce. These signals often influence perceptions that impact the development of trust, which the following section addresses.

Because cultural and scientific programmes are designed to foster interaction towards a shared goal, they represent an aspiration to develop trust rather than the presence of trust necessarily. With these programmes in particular, there is also a shared interest in stable political relations, which can foster economic co-operation in energy and beyond. For this reason, calculated trust also plays a role.

Border zone co-operation

Another manifestation of trust is the establishment of a visa-free zone at the land border between Norway and Russia. In 2010 the governments agreed for limited free

⁵² 'UPDATE 1-Statoil Writes off \$336 Mln Shtokman Gas Investment', *Reuters*, 7 August 2012, <http://www.reuters.com/article/2012/08/07/statoil-shtokman-idUSL6E8J76LB20120807>.

⁵³ McAllister, 'Affect-and Cognition-Based Trust as Foundations for Interpersonal Cooperation in Organizations'; Angela Ayios, *Trust and Western-Russian Business Relationships* (Ashgate Publishing, Ltd., 2004); Niklas Luhmann, *Trust and Power* (Chichester [Eng.]; New York: John Wiley & Sons, 1979); Mollering, 'Trust, Institutions, Agency: Towards a Neoinstitutional Theory of Trust'; Rousseau et al., 'Not so Different after All'.

movement of people, goods, and services for those residents living within 30 kilometres of the border. The level of cross border activity tripled from 2009 to nearly 300,000 in 2012.⁵⁴ Considering most Russia and the E.U. still require visas, the visa-free zone represents the presence of trust and a desire to build it further. Considering the cross border movement will increase interactions between citizens of both countries, if those interactions are generally of a positive nature, it will contribute to building trust in both societies over the long term.

Where the visa-free zone can encourage economic and interpersonal interaction among local residents, the recent joint military exercises at the border are a first step to developing trust at the military political level. The signal is significant considering Russia's longstanding suspicion of NATO. Among political activities, security collaboration has the highest threshold of risk, and likewise trust.⁵⁵ Although the exercises are limited to the border region they too send a signal to security officials of both sides the intention to improve relationships. This importance of this collaboration, albeit limited, cannot be understated considering Norway's status as a founding NATO member and security forces profile of the ruling political group in Russia.⁵⁶

Private views

This study benefits from fourteen semi-structured interviews with analysts from prominent research organisations, company executives, and policy makers. The main themes touching on trust are the following. Firstly, there is a strong desire on both sides to cooperate in the areas of energy, trade, security (military), cultural and scientific collaboration. However, trust is still in its relative infancy. Both sides alluded to a fairly peaceful interaction during the Cold War.

However, some Norwegian policy makers and executives confided there is still a high degree of uncertainty when dealing with their Russian counterparts owing to the business environment, regulation, and policy making process. Likewise some Russian politicians and prominent observers have a tainted view of Norway because of its membership in NATO and western alignment during the Cold War. On the other hand, a handful of key personal relationships at the political level on both sides are helping to resolve this. Military and economic asymmetry as well colour the perceptions of some Norwegian observers towards Russia. However, Russian actors have thus far taken care not to raise fears over the discrepancy of power.

Norwegian commercial actors still treated Russian ventures differently from those in the West. Where markets such as the United Kingdom and Germany are not viewed with the same degree of risk, Russia is a market included in political risk

⁵⁴ Heather Yundt, 'Visa-Free Agreement Sign of Strong Border Relationship', *Barentsobserver*, accessed 20 February 2014, <http://barentsobserver.com/en/borders/visa-free-agreement-sign-strong-border-relationship>.

⁵⁵ Sir Richard Dearlove, 'Lecture from Former Director of MI6' (Faculty of Law, University of Cambridge, 14 January 2013).

⁵⁶ Samuel Charap and Ian Bremmer, 'The Siloviki in Putin's Russia: Who They Are and What They Want', *The Washington Quarterly* 30, no. 1 (14 December 2006): 83–92.

assessments of Statoil, for example.⁵⁷ This separate handling of Russian ventures illustrates the degree of uncertainty and suspicion that some Norwegian actors have toward Russia. But the fact that decision makers are still willing to assume a degree of vulnerability attests to a measure of trust on the part of Norwegian actors. As one Statoil executive explained, 'the interactions [of Statoil in Russia] are initiated and defined by economic interests, however, it is all held together by trust.'⁵⁸

The preceding evidence represents of constellation of critical decisions comprising current Norwegian-Russian energy relations. Although co-operation does not necessarily mean that both parties trusted each other, this study argues that at events such as geological data sharing, the resolution of the maritime border dispute, a proliferation of joint ventures and collaboration in the areas of science and security represent a degree of trust and the desire to build trust in the future. No doubt there are other examples because economic, political and social interaction can all impact energy trade. However, these examples appeared to be most relevant in the Norwegian-Russian case based on previous analysis and input from experts and the actors themselves.

4 Trust Determinants

Trust determinants, or those factors that most influenced the development of trust, fall into two categories, pre-existing or actor-determined. Pre-existing factors include type of transaction, such as supplier to consumer, culture, existing transportation infrastructure such as pipelines, and previous events, which shape the memories and associations of the proverbial 'other.' Actor-determined factors are those decisions actors make deliberately that inform and influence their levels of confidence and predictability. Each type plays into the development of trust, however, the former generally carries more weight at the beginning of the interactions and in situations when the time constraint for making decisions is short, which is often the case with energy compared to other industries. The latter tends to play a stronger role over time and repeated interactions. However, once a pattern of trust is formed, from high to low, it becomes less flexible or more difficult for actors to influence.⁵⁹

The following section is divided in two parts. The first distinguishes between pre-existing and actor-determined factors and orders them by their apparent impact according to input from interviews, criteria from previous scholarship and comparisons with other energy bi-lateral relations.⁶⁰ The second overviews the trust determinants this study identified specific to the Norwegian-Russian case. It also highlights specific examples of pre-existing factors to illustrate how some determinants are beyond the

⁵⁷ Statoil Representative (non-attributed), 'Interview with Vice President of Team Dealing with Russia at Statoil' (Oslo, 14 June 2012).

⁵⁸ Godal, 'Interview with Former Minister of Defence of Norway, Former Minister of Foreign Affairs of Norway, Former Norwegian Ambassador to the Federal Republic of Germany'.

⁵⁹ Ozawa, 'Trust and European-Russian Energy Trade: The Case of Oil and Gas Partnerships and Long-Term Contracts'.

⁶⁰ See Ayios, *Trust and Western-Russian Business Relationships*; Ozawa, 'Trust and European-Russian Energy Trade: The Case of Oil and Gas Partnerships and Long-Term Contracts'; Mark Saunders, *Organizational Trust: A Cultural Perspective* (Cambridge: Cambridge University Press, 2010).

control of actors. This includes references to collaboration in fishing, telecommunications, ideological legacies and cultural differences.

Norwegian-Russian energy relations are a recent development in the nearly 200 years of political, economic, and social interaction of shared history. As previously mentioned the formation of trust does not occur in a vacuum. Although attempts to game out trust through cooperative models are instructive to understand how repeated interaction can promote trust, interactions between two groups, however recent, will always have some sort of collective memory reference. They may be formed with information from reference cases, such as collaboration in another area of economic trade, or direct input from members of their organisational or national group whose opinions about the trading partner have been established in some other context. Collective memories, or stereotypes, are also a lens through which each party will approach the other and interpret their actions.⁶¹

What makes trust in the context of energy relations all the more relevant is the time constraints for decision making and the international nature of negotiations. This incorporates national cultures, politics and history. And according to Möllering and Stache, the less time actors have to make a decision, the more influence trust will have on his or her preferences.⁶² As one observer of Norwegian-Russian energy relations explained, 'This is what's different about these deals, these decisions are usually made much quicker than other industries.'⁶³ Moreover, Kahneman's analysis of psychological processes where judgements are made underscores a certain type of trust determinant, those associations and memories that dominate our 'first order' decisions.⁶⁴ He argues for a distinction between two types of judgements, those that draw on memories and associations, the 'fast' type of thinking, and those based on a deliberate and more objective analysis, or 'slow thinking'. According to Kahneman, we are predisposed to the first order while the second, more analytical thinking requires effort and concentration.⁶⁵ Thus, there are two factors that are constantly pushing actors towards first order judgements on trust, time and the inclination to defer to memories and associations.

There is also a third factor, national culture, defined as 'the values, beliefs and assumptions learned in early childhood that distinguish one group of people from another.'⁶⁶ According to one influential study on the effects of culture in international business, 'national culture is embedded deeply in everyday life and is relatively

⁶¹ Saunders, *Organizational Trust*.

⁶² Möllering and Florian Stache, 'Trust Development in German-Ukrainian Business Relationships: Dealing with Cultural Differences in an Uncertain Institutional Context', in *Organizational Trust: A Cultural Perspective*, ed. Mark Saunders (Cambridge: Cambridge University Press, 2010), 205–26.

⁶³ Arild Dr. Moe, 'Interview with Deputy Director and Research Fellow of the Fridtjof Nansen Institute' (Oslo, 15 June 2012).

⁶⁴ Daniel Kahneman, *Thinking, Fast and Slow* (London: Allen Lane, 2011).

⁶⁵ *Ibid.*

⁶⁶ Geert H Hofstede, *Cultures and Organizations: Software of the Mind* (London; New York: McGraw-Hill, 1991).

impervious to change.’⁶⁷ When cultural differences create conflict they can affect the development of trust insofar as expectations become misaligned and signals misinterpreted. One example in the Norwegian-Russian case was the degree of contract flexibility versus social interaction, two issues which had opposing impacts on building confidence. Where Norwegians looked to contracts and process in building trust, Russians emphasised interpersonal relations and social interaction. The popular Russian expression, ‘*bumaga terpit vsye*,’ encapsulates this orientation. The literal translation is ‘paper holds anything’ but a more relevant interpretation would be ‘anything can be written into a contract.’ What matters is the relationship behind the contract. Although individual experiences and level of education may offset the effects of cultural differences, the weight of national culture in trust formation is insurmountable, even when organisations attempt to instil a ‘culture’ of their own.⁶⁸

The following are examples of pre-existing factors unique to the Norwegian-Russian case. However Table 1 overviews all of the trust determinants, both pre-existing and actor-determined.⁶⁹

Fishing reference

One of these references that those interviewed from both sides brought up is the history of collaboration in the area of fishing, which began in the 1970s. As the lead negotiator from the Norwegian foreign ministry explained, ‘it’s not like we were starting with no experience. We had successfully coordinated fishing in the absence of a border in the 1970s.’⁷⁰ It is also noted referenced by Russian analysts Norwegian Foreign Ministry officials in public statements.⁷¹ This is significant for several reasons. It is one of the main references that influences first order impressions providing empirical evidence of a trusting and cooperative relationship to which both sides can refer. For Norway especially, fishing was the main industry before the development of the petroleum sector. Although fishing was not as necessary to sustain the Soviet economy, one must not forget that consumer products were routinely in shortage in the Soviet Union. There was great pressure for authorities to make basic food products available beginning in the 1960s with Khrushchev’s race to overtake the West in standards of

⁶⁷ Karen L. Newman and Stanley D. Nollen, ‘Culture and Congruence: The Fit Between Management Practices and National Culture’, *Journal of International Business Studies*, *Journal of International Business Studies*, 27, no. 4 (1996): 753–79.

⁶⁸ Ibid.

⁶⁹ See Table 1 in Appendix 5

⁷⁰ Rolf Einar Fife, ‘Interview with Senior Level Negotiator from the Norwegian Ministry of Foreign Affairs Involved in the Maritime Border Resolution between Norway and Russia,’ took place in Oslo on 15th of June, 2012.

⁷¹ Utenriksdepartementet, ‘Norway — A Cooperation Partner in the High North’, Tale/artikkel, 032171-090516, (11 November 2006), <http://www.regjeringen.no/nb/dokumentarkiv/stoltenberg-ii/ud/taler-og-artikler/2006/norway--a-cooperation-partner-in-the-hig.html?id=420790>; Støre, *European Energy Perspective: High North – New Dimensions, Presentation to the Norwegian Parliament/Storting*; Komarov, ‘Predstavleniya O Norvegii V Rossii V Xx Veke’.

living.⁷² The maritime region between Russian and Norway was also one of the few access points for Soviet fishing ships to the open sea.

Ideological legacy

Another pre-existing factor is the association of ideological compatibility. Strictly speaking, the history of political and economic systems between Norway and Russia are quite different, but the Norwegian social market economy is more compatible with Russian views than other Western states. Perceptions of differences are not as negative as those between the U.K. and Russia, for example. Both have petroleum industries with links to the state, and consequently to policy makers albeit to varying degrees.⁷³

In the case of Russia, Norway's political system has some positive associations. Since the Cold War period, Norway was perceived by Soviet politicians as relatively harmless, despite Norway's membership in the NATO.⁷⁴ Again, perceptions are never black and white. In the case of British-Russian joint venture, TNK BP, being perceived as a 'capitalist' was a tool that AAR used to influence the Russian minister of energy, Igor Sechin, to undermine his trust in BP's leadership.⁷⁵ A hierarchy of images exists but is not static. And the current perception will depend on the context.

Telenor

If the fishing interaction is a positive reference for trust formation, then the failed joint venture of Telenor is a negative. This was the first major commercial interaction between a Russian/Ukrainian partner and Norway. Telenor is Norway's largest and most established telecommunications company whose joint venture with Russia's Alpha investment group suffered some of the same experiences as BP as noted by analyst, Arild Moe.⁷⁶ It is interesting to note because the partner was the same. Alpha was the primary shareholder of BP's partner in TNK BP, Alpha Access Renova (AAR) and the main Russian partner in Telenor.

Other Western-Russian joint ventures

The experience of companies such as Yukos, TNK BP, and Shell in the Sakhalin II joint venture functioned as a backdrop for the perceptions of some Norwegian actors. These references paint the Russian energy sector as less transparent with high degree of corruption, both of which raised the level of suspicion towards Russia. However, the economic benefits of doing business in the Russian energy sector outweigh the risks for

⁷² 'Red Spring', *The Cold War* (BBC, 1998).

⁷³ Ulrich Bartsch, 'Norwegian Gas: The Struggle between Government Control and Market Developments', in *Gas to Europe: The Strategies of Four Major Suppliers*, ed. Robert Mabro and Ian Wybrew-Bond (Oxford; New York: Published by the Oxford University Press for the Oxford Institute for Energy Studies, 1999).

⁷⁴ Komarov, 'Norway in Soviet Foreign Policy Thinking of the Khrushchev Period'.

⁷⁵ Tom Bower, *The Squeeze: Oil, Money and Greed in the Twenty-First Century* (London: HarperPress, 2009) 112.

⁷⁶ Moe, 'Interview with Deputy Director and Research Fellow of the Fridtjof Nansen Institute'.

many international petroleum companies. The length of time that Statoil has been in Russia can offset the effects of the business environment, however. Experience has informed Norwegian executives and policy makers about the business environment which reduces the perceived level of risk. It remains, however, an influence in the level of trust on the Norwegian side. The attention Statoil's political risk analysis team gives to Russia compared to Germany or the U.K. reflects a lower degree of trust.

Cultural differences

The emphasis on timelines and planning was another point of potential conflict in negotiations. As Ayios points out, the role of the plan can be different in the Russian versus Norwegian context.⁷⁷ For a variety of reasons related to how political institutions and companies have developed in Russia, a type of behaviour has developed that is partly cultural but also comes from constraints of the local business environment. By contrast, companies in Western Europe, and those broadly tracing their cultural origins to the Enlightenment, have an emphasis on planning and process. These two perspectives sometimes come into conflict in international joint ventures. In the case of Shtokman, the evidence points to a clash of organisational cultures which may have contributed to an impasse in negotiations and an erosion of trust.

5 Implications and conclusions

It appears that two types of early-stage trust, deterrence based and calculative were present at the beginning of interactions between Statoil, Gazprom, Rosneft, and policy makers. However, the Shtokman joint venture between Gazprom, Total, and Statoil is currently showing signs of a trust breakdown. The first stage of the joint venture was for planning where all parties committed to invest at a certain level in order to build an administrative infrastructure and continue field explorations. Negotiations turned problematic at the second stage when analysts reported that the parties disagreed over the destination market and mode of transport, pipeline versus LNG. The rift allegedly caused a breakdown in negotiations that resulted in Statoil writing off 340 million USD of its stage 1 investment to effectively pull out of Shtokman Development AG.⁷⁸

It is noteworthy that a strong interpersonal relationship, which is common to the most stable Russian-European joint ventures, was lacking in the interactions between Gazprom and Statoil executives. The only relationship that did seem to play a role was at the political level between the two foreign ministers, Jonas Gahr Støre and Sergei Lavrov. Norwegian press also reported on the positive, and even social nature, of their relationship, which was helpful in negotiating the resolution of the maritime border dispute.⁷⁹

⁷⁷ Ayios, *Trust and Western-Russian Business Relationships*.

⁷⁸ 'UPDATE 1-Statoil Writes off \$336 Mln Shtokman Gas Investment'.

⁷⁹ Kirsten Karlsen, 'Støre Og Lavrov Drakk Vodka Og Så Fotball', *Dagbladet.no*, accessed 25 October 2014, <http://www.dagbladet.no/2014/10/09/nyheter/innenriks/politikk/utenriks/samfunn/35664972/>.

The interactions between Statoil and Gazprom point to an erosion of trust for primarily two reasons, a culture conflict that confused expectations and a shift in preferred contracting structures from long term contracts to spot markets standing in opposition to Gazprom.⁸⁰ In this way the Prisoner's Dilemma is instructive insofar as the partnership presents each with short term gains for 'defecting' and long term gains for collaborating because together Statoil and Gazprom are oligopolistic suppliers in the continental gas market. The LTC, preferred by both sides, is most likely to sustain if the two major suppliers collaborate. In the past, both Norwegian and Russian gas suppliers maintained an implicit agreement over European markets, to respect and not disrupt their counterpart's share of the market.⁸¹ This dynamic endured with only two exceptions in central Europe.⁸² Since formally leaving Shtokman, Statoil has begun to change its contract model in Europe, moving towards spot market pricing. Statoil's current strategy appears to be selling up to half its European designated gas according to spot market prices while Gazprom remains committed to long term contracts indexed to oil. Statoil actions signal a possible defection from the relationship, and as the first defector, it can benefit from higher short-term gains.⁸³

The second reason relates to organisational culture and trust-promoting signals. The Norwegian parties tended to emphasise clarity, timelines, and planning throughout the first stage. Missed deadlines and changing parameters which prolonged the process likely eroded Statoil's confidence in Gazprom as a partner. Conversely, previous research suggests that from the Russian perspective a focus on process without attention to developing relations may have undermined trust and contributed to the delays in the decision making process.

But in the end Norwegian-Russian partnerships have much to benefit from one another. For Russia the obvious benefits are investments for expanding production and modernising outdated facilities not to mention the technical expertise for offshore drilling and LNG that Norway can provide. For Norway access to new oil and gas fields, especially as Statoil seeks to become a world-class international petroleum company, is paramount and the proximity of Russia and shared interests in regional stability make collaboration with Russia all the more attractive. As the Norwegian Foreign Minister, Jonas Gahr Støre, articulated to the Storting (Norwegian Parliament), 'our relationship with Russia is one of the three drivers behind our High North strategy. To engage with Russia in close/committed, long-term and sustainable co-operation based on mutual respect will be key to the development of the High North.'⁸⁴ But in the long term

⁸⁰ Nerijus Adomaitis, 'UPDATE 3-Norway Challenges Russia with New Gas Pricing in Europe', *Reuters*, 20 November 2012, <http://www.reuters.com/article/2012/11/20/statoil-wintershall-idUSL5E8MKOW320121120>.

⁸¹ Bartsch, 'Norwegian Gas: The Struggle between Government Control and Market Developments' 248.

⁸² Jonathan Stern, 'Soviet and Russian Gas: The Origins and Evolution of Gazprom's Export Strategy', in *Gas to Europe: The Strategies of Four Major Suppliers*, ed. Robert Mabro and Ian Wybrew-Bond (Oxford; New York: Published by the Oxford University Press for the Oxford Institute for Energy Studies, 1999) 186.

⁸³ See Appendix 4

⁸⁴ Støre, *European Energy Perspective: High North – New Dimensions, Presentation to the Norwegian Parliament/Storting*.

collaboration in the oil and gas sector could position Norwegian and Russian companies to become industry leaders on the world stage. In the same way that German manufacturing and Russian energy developed a reciprocal relationship, the operational knowhow and credibility of Statoil combined with Russia's vast resources can create a complimentary partnership of suppliers at a scale the petroleum industry has yet to realise.

In order to achieve this both sides must overcome the tension between short term competition and long term collaboration. Over time this may transpire organically, but it is more likely to require initiative from commercial and political leaders. Just as policy makers in recent years achieved a breakthrough in the maritime border resolution so must they again, in combination with executives from the relevant energy companies, formulate a long term plan that includes strategic goals for their petroleum industries.

Another issue for Norwegian petroleum companies is the emerging focus on the Russian oil sector over gas. In recent years some experts have argued that a power struggle is emerging between two actors in Russia, Igor Sechin who heads Rosneft, and Alexey Miller, CEO of Gazprom since 2001.⁸⁵ Whether or not this is the case a strategy that focuses on one actor who reports to the same person as the other is riskier than engaging both legs of Russian energy, oil and gas. Considering both companies are state owned with leadership appointed by the same person, a deterioration of trust with on one side can affect the other.

And likewise for Gazprom, the long term costs of not collaborating with Statoil are significant if it is to gain the technical expertise and investment it needs to develop its arctic offshore fields. Moreover, if Russian companies are to expand their operations internationally they will be subject to the same imperatives of building trust as their Norwegian counterparts. These would include learning to adapt negotiations and management styles to local institutions. As previously mentioned, reputation and references are important, and a successful track record with a reputable company like Statoil would help to build credibility with international partners.

While Statoil formally wrote off its \$ 336 million financial investment in Shtokman a collaboration with Gazprom has the potential to impact its sales and long term upstream investments for the European market. With Statoil's recent movement toward spot market prices the spectre of competition between Europe's the two largest gas suppliers could threaten the guarantor of costly investments needed to develop future supplies, LTCs. Additionally, Gazprom still accounts for twelve per cent of Russia's national budget and actions that undermine state revenues might impact the welcome of current and future Norwegian projects in Russia. What is required is not summary resistance to change in the European gas market but rather greater co-operation between the dominant suppliers to transition their contracting practices thereby minimising and negative shocks to all market participants, suppliers and consumers. This is relevant for Norwegian and Russian negotiations with Germany, their main European market. As one diplomat noted, 'German customers are particularly sensitive to price volatility,' which is a typical result of sudden changes to

⁸⁵ Keun-Wook Dr. Paik, 'Lecture by Associate Fellow, Chatham House, on Russian Oil and Gas Relations at the University of Cambridge' (Faculty of Asian and Middle Eastern Studies, University of Cambridge, 1 March 2013).

market fundamentals. Therefore a negotiated transition could benefit consumers as well.⁸⁶

Timing is important because the ability to build trust tends to erode over time. As previous European-Russian cases illustrate, there is greater elasticity of trust in the early stages of co-operation, and although Norwegian companies have operated in Russia since the 1990s, it was minimal in comparison to recent years. This underscores the need to prioritise trust early in order to ensure favourable conditions in the future.

Would the maritime resolution be possible in 2014?

Another implication of the trust concerns one of the most important political developments in Norwegian-Russian energy co-operation, the resolution of the maritime border. As is often the case with breakthroughs such as this, outcomes depend on not only factors that are within the actors' control, but also on the chance alignment of multiple factors. Timing is critical, and one might ask would such an event be possible today? This article has argued that the resolution was the result of a concerted effort by both Norwegian and Russian actors, and especially a Norwegian foreign policy explicitly designed to maintain good relations and build trust with Russia. Co-operation since the signing of the Kirkenes Declaration in 1993 has developed from cultural and scientific to economic and even security with the recent Norwegian-Russian joint military exercises. All of these, to one degree or another, contributed to the development of trust and the positive environment for the official maritime delineation.

The economic factors centre on the potential for hydrocarbon extraction, shipping and fishing in the border region. However, the market factors for oil and gas in the years leading up to the resolution created greater weight for hydrocarbon extraction, namely the record price levels of oil to which Norwegian and Russian gas were indexed and the role of the long term contracts as the dominant trade structure for selling gas into continental Europe. With the German *Energiewende*, falling demand for gas and changing market structures in Europe, this makes oil and gas development in the High North less attractive today from a commercial standpoint.

The other chance factor is a changing of the guard in both Norway and Russia and regional geopolitical shifts. With respect to the latter, this study was conducted before the Ukraine Crisis and annexation of Crimea. Before December 2013, few would have suspected that the ousted Ukrainian president's decision to reject the EU association agreement would lead to regional conflict and civil war. It goes without saying this has impacted perceptions of Russia, and the international climate for working with Russia is tense, to nothing of the current sanctions. As a recent survey from Pew Research illustrates, public approval of Russia has dropped dramatically across Europe as a result of the Ukraine Crisis.⁸⁷

Secondly, trust in its highest form is personal. Good interpersonal relations in key positions can have important impacts on co-operation, and in the years leading up to the resolution, the good working relations between the two foreign ministers, Jonas Gahr Støre and Sergei Lavrov, are likely to have helped negotiations. The fact that Medvedev was then president, who is known to be more open to new ideas and better

⁸⁶ Non-attributed, 'Interview with German Diplomat, Ministry of Foreign Affairs of the Federal Republic of Germany' (Moscow, 29 November 2010).

⁸⁷ *Russia's Global Image Negative amid Crisis in Ukraine.*

relations with the West than Russia's current president Putin, probably also boded well for resolving the border dispute. Scholars have noted this difference in Russian leadership, which affected, for example, Russia's relations with the United States.⁸⁸ As one European head of state explained, Helmut Schmidt, 'when Margaret Thatcher was prime minister, we knew it was best to wait for better weather before dealing with issues like currency integration.'⁸⁹ For these reasons, it is less likely that Norway and Russia would have been able to achieve the same breakthroughs, such as the maritime border resolution, in today's environment. And without the border resolution, it is doubtful that the current level of co-operation between Statoil, Gazprom and Rosneft would be possible. Thus, the Norwegian-Russia case underscores the importance of timing in international negotiations.

Limitations

The first limitation is common to any analysis of trust, the conceptual disagreement about what trust is and how to measure it. Rather than advancing a definition for academic discourse, this study drew on conceptions of trust from the actors themselves. The definition in the second section represents a synthesis of input from the decision makers and analysts. Although this approach does not resolve the current conceptual debate, it illustrates national and organisational variation which point to different expectations of each group. This assists in measuring trust through observable actions, behaviour and 'signals'.

Another limitation is the focus on one bi-lateral energy relationship when what is unique versus applicable to other cases may not be, at the outset, clear. This study, however, concentrated on critical decision points relevant to many international energy relations between supplier states serving the same market. Moreover, the Norwegian-Russian case proceeds from an ongoing research project and benefits from comparisons such as German-Russian and British-Russian energy relations, which are useful in benchmarking the level of trust.

Considering the traditionally non-transparent negotiations process of energy trade, access to decision makers was another limitation of the study. Nevertheless, any information from executives and policy makers is still valuable. Three organisations were instrumental in making introductions and scheduling interviews, without which an examination such as this would have not been possible. The information they provided was often sensitive, and this study endeavoured to balance insights from their input with respect for the trust they afforded the researcher.

And finally this study both benefits from and is limited by the interpretive nature of qualitative research. Data from semi-structured interviews provide thick descriptions to explain events, but the responsibility to make sense of it lies with the researcher. Interpretation introduces, *ipso facto*, a degree of subjectivity, and to minimise this, the researcher made every effort to conduct interviews and draw from information sources in the original language. This was not possible with Norwegian, but the availability of information in English and the English proficiency of this community made the language barrier almost unnoticeable. The researcher was also an 'outsider' in all the cultural

⁸⁸ Angela Stent, *The Limits of Partnership: U.S.-Russian Relations in the Twenty-First Century*, 2014.

⁸⁹ Denys Blakeway and British Broadcasting Corporation., *Thatcher, the Downing Street Years [videorecording]* ([England]: a Fine Art Production for BBC News and Current Affairs, 1994).

contexts and spent extended periods of time in each of the countries involved, six weeks in Norway, two years in Russia, and for the reference cases, four years in Germany and three years in the United Kingdom.

Conclusion

Returning to this study's original questions, what can the case tell us about trust and Norwegian-Russian energy relations? Firstly, trust affected the timing and staging of co-operation. The decision to engage in a partnership did not occur in a vacuum. It resulted from continuous co-operation and interaction in politics vis-à-vis the maritime border resolution, previous small-scale joint ventures such as Kharyaga, scientific and cultural exchanges and joint military exercises. Trust influenced the recent proliferation of joint ventures between Norwegian and Russian energy firms, but a lack of trust stemming from diverging economic interests appears to have inhibited co-operation in gas, which Russian actors consider more strategic than oil. The case also illustrated that 'deterrence' and 'calculative' types of trust were dominant in early stages of co-operation. Nevertheless, 'relational' trust can play a role even at the earliest stages in isolated cases when individual relationships develop.

Although relational trust can affect co-operation at random times, it becomes more prevalent in later stages provided there is no breakdown of trust beforehand. Relational trust, which is the highest form, can reduce transaction costs and yield preferred treatment such as first right of refusal to new projects and access to the best hydrocarbon fields, for example. The German-Russian comparative illustrates this. For Norway and Russia, there were isolated cases of relational trust between key individuals that influenced the process of co-operation if not the substance. For instance, good relations between the two foreign ministers seemed to work favourably for the resolution of the maritime border dispute. However, because of the political and commercial sensitivity of the subject, it was not usually possible to identify them or explain their impact. Representatives of government and industry would talk about this only informally and off the record. In general, there was an inclination to view Norwegian-Russian negotiations in the context of shared interests, principles and norms, most importantly international law. But this was coupled with a reluctance to acknowledge, at least publicly, the role of human factors such as interpersonal relationships, despite their own success in building social capital with Russia and enjoying the benefits. Recalling the Russian expression, '*bumaga terpit' vsye*,' this stands in stark contrast to what appears to be an emphasis on relationships in the Russian context.⁹⁰

With respect to trust formation the study argues that pre-existing conditions such as history, references to trade in other industries, geopolitics and culture played a role in the development of trust. At the same time actors made choices that either promoted or discouraged trust. Notable among these were the decisions to assume risk such as geological data sharing, the visa-free zone and most importantly, the maritime border resolution. Conversely there were choices that sent mixed signals and threatened to undermine trust including incursions into the counterpart's perceived market territory and changes to contract practices.

⁹⁰ Ayios, *Trust and Western-Russian Business Relationships*; Ozawa, 'Trust and European-Russian Energy Trade: The Case of Oil and Gas Partnerships and Long-Term Contracts'.

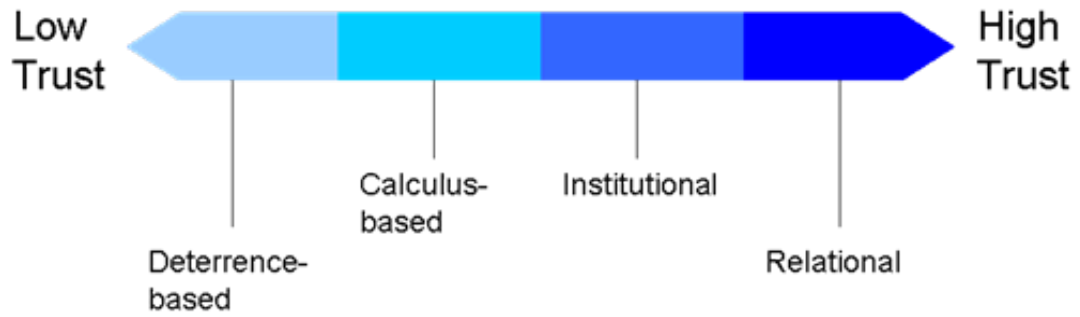
The study also demonstrates that the supplier-supplier dynamic can create a tension between co-operation and competition, thereby stifling trust formation. Because both sides serve the same market, the temptation to 'defect' was always present, which may have contributed to the breakdown in negotiations over a major gas joint venture. It remains to be seen whether Shtokman will move forward, and how this could impact the development of spot markets and security of supply in Europe.

In the end, the sum of the observed Norwegian-Russian interactions points trust in the making. It shows that the development of trust in international energy relations is not a linear process, and the type of trust is likely to change over time. If it develops from low to high, then institutional and relational mechanisms will replace deterrence-based and calculative mechanisms. In practical terms one would expect to see less 'hostage taking' such as asset swaps and more reliance on contracts and interpersonal relations as the relationship matures.

And finally, the analysis identified two areas of further study including an examination of interpersonal relationships and the effects of culture. Despite general agreement that culture matters in international alliances, how it matters is a more elusive question, one that additional comparative case studies are well equipped to address. This would further our understanding of how trust is formed and its effects in the context of international energy relations.

Appendix

1. Types of Trust



2. Map of contested region and new maritime border



Source: BBC, <http://www.bbc.co.uk/news/business-11316430>

3. The Prisoner's Dilemma of Short-term Defection versus Long-term Collaboration in the European Market

		Russian Suppliers	
		Defection (Spot Market Prices)	Collaboration (maintain LTCs)
Norwegian Suppliers	Defection (Spot Market Prices)	<p>N- , R-</p> <p>If oil prices remain high, both lose revenues in the short term as spot prices are trading below oil indexed prices. Uncertain long term revenues subject to spot market fluctuations, and planning for additional supply development becomes risky.</p>	<p>N- , R+</p> <p>Norwegian suppliers gain market share and secure best terms. Uncertain long term revenues subject to spot market fluctuations, and planning for additional supply development becomes risky.</p> <p>(current direction)</p>
	Collaboration (maintain LTCs)	<p>N+ , R-</p> <p>Russian suppliers gain market share and secure best (first-mover) terms. Uncertain long term revenues subject to spot market fluctuations, and planning for additional supply development becomes risky.</p>	<p>N+ , R+</p> <p>More certainty of long term revenues. Both sides are able to plan investments for new supply development. Suppliers and consumers adjust LTCs based on short term oil prices.</p>

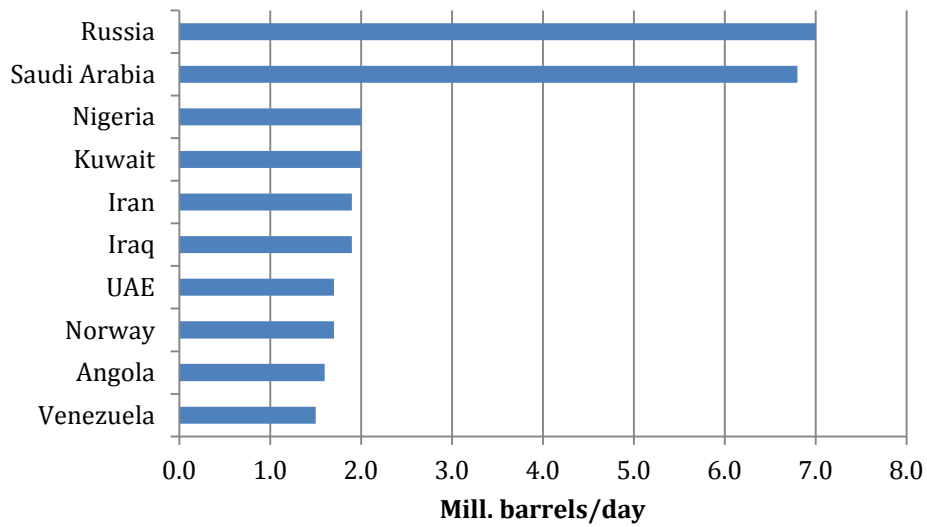
4. Trust Determinants: Pre-existing and Actor-determined factors

Table 1: Trust Determinants Table

Pre-existing Factors	
Positive	Negative
Two centuries of political, social and economic interaction created a familiarity between the two groups. Neither treated the other as an 'exotic' region	Trade references including Telenor, Netra, and Norway's gas contracts in the Russia's perceived market territory of central & eastern Europe
Territorial negotiations – the land border was quickly resolved established after the end of WWII, and the USSR 'trusted' Norwegian officials to mark the boundary according to their mutual understanding of its location	Power asymmetry – Russia as a threatening neighbour
WWII, Soviet Union perceived as liberators because the Red Army left shortly after the end of the war unlike most countries in Eastern Europe	Perceptions of ideological history – 'communist dictatorship' of Russia and the 'imperialist' western-aligned Norway
Although a member of NATO, Russians considered Norway to be friendlier than other NATO states	Market role – both suppliers serving the same market creates the temptation to compete rather than collaborate
Shared hydrocarbon fields around the maritime border created incentives to cooperate	Failed Western-Russian joint ventures and the Russian business environment
Geographic proximity create familiarity and interactions especially around border	Cultural differences – the emphasis on process and contracts from Norwegians and relationships with flexibility from Russians
Trade references of collaboration in fishing and marketing gas in Europe	Longstanding dispute over the location of the maritime border, 1946-2011
Power asymmetry – Norway as nonthreatening to Russia	Cold War experience - as one of the founding members of NATO Norway was perceived to be aligned with Russia's enemies
Perceptions of ideological history – some Norwegian policy makers had sympathy for egalitarian political views which were not as critical as other western groups. Likewise there was some sympathy among Russian politicians for social democratic countries compared to other western political models.	
Petroleum industries have complimentary features. Norway can offer technical expertise for arctic offshore production, investment and international credibility. Russia has vast resources that Norwegian companies can develop.	
State owned enterprises dominate the petroleum industries of both countries	
Interpersonal relations of the two foreign ministers	

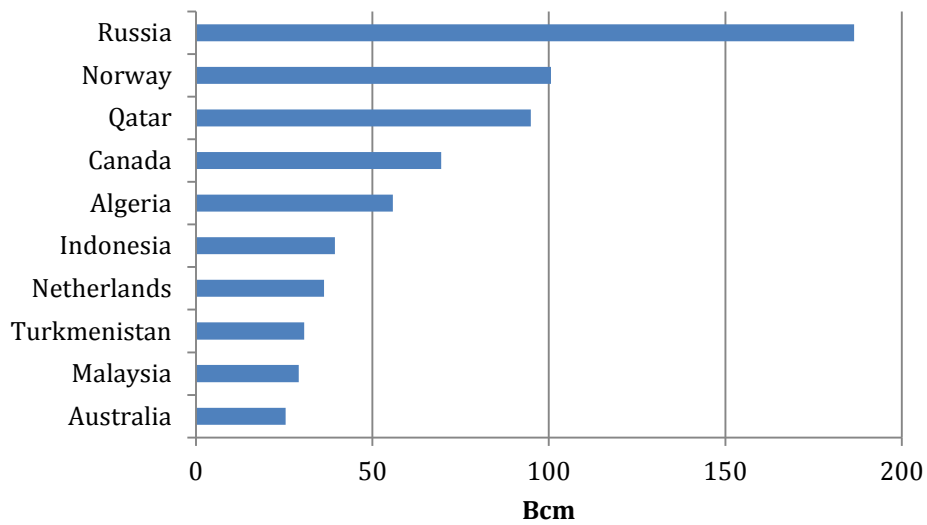
Actor-determined Factors	
Positive	Negative
<p>Maritime border resolution was a sign of trust and a signal of the intention to build trust</p> <p>Geological data sharing was a sign of trust and a signal of the intention to build trust</p> <p>Joint ventures in oil and gas (Shtokman, Norwegian Continental Shelf, Sea of Okhotsk)</p> <p>With some exceptions, both sides exhibited restraint from encroachment into each other's perceived markets.</p> <p>Signalling interest through public statements from company leaders and politicians</p> <p>Political co-operation: visa-free zone at the land border for residents</p> <p>Joint exercises of Norwegian and Russian defence forces in the border region</p> <p>Joint scientific projects created interactions in the scientific and policy communities.</p> <p>Joint cultural exchange projects created interactions among residents in the border region.</p> <p>Dedicated funding for regional experts who can better inform the energy and policy communities. It also signals a long term interest in the other part.</p> <p>Company funded community projects such as support for academic programmes. These are beyond the scope of the companies' operations. But they signal interest and cultivate interpersonal relations.</p>	<p>Switching from long term contracts to spot market pricing</p> <p>Breakdown in negotiations over Shtokman. It appears diverging interests (Gazprom's interest in development LNG and Statoil's focus on pipeline transported gas) were the source of conflict but there are indications that cultural expectations were not aligned in the negotiations process. This likely exacerbated the conflict through misunderstandings and failed expectations.</p> <p>Construction of the Netra (Norddeutsche Erdgas Transversale) pipeline brought Norwegian energy into eastern Germany, encroaching on what Russian side perceived as its territory.</p> <p>Norwegian contract with Czech TransGas brought Norwegian energy further eastward, encroaching on what Russia's perceived market territory.</p> <p>Projecting 'home' expectations on 'foreign' partner in negotiations – contracts and process for Norwegians, flexibility and social relations for Russians</p>

5. The Largest Oil Exporters in 2011



(Source: International Energy Agency)

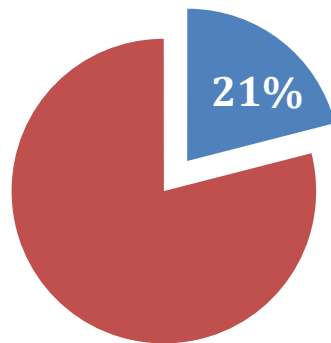
6. The Largest Gas Exporters in 2010



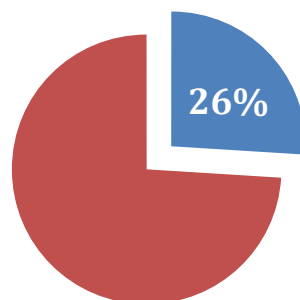
(Source: International Energy Agency)

7. Macroeconomic Indicators for the Petroleum Sector of Norway in 2010

Petroleum sector's share of GDP



Petroleum sector's share of state revenues



(Source: Statistics Norway, Ministry of Finance)

8. Interviews

Name	Organisation(s)	Position(s)	Details
Dr. Alexei Komarov	Russian Academy of Sciences	Leading Research Fellow at the Institute of World History	Interview took place by telephone on March 10, 2013
Dr. Arild Moe	Fridtjof Nansen Institute	Deputy Director and Senior Research Fellow	Interview took place in Oslo on June 15, 2012.
Bjørn Tore Godal	Norwegian Ministry of Defence, Norwegian Ministry of Foreign Affairs, Statoil, Norwegian Institute for Defence Studies	Former Defence Minister, former Foreign Minister, Member of Statoil's Board of Directors, Senior Advisor at Norwegian Institute for Defence Studies	Interview took place in Oslo on June 2, 2012.
Dr. Dag Harald Claes	University of Oslo	Professor in the Dept. of Political Science	Interview took place in Oslo on June 18, 2012.
Statoil representative (non-attributed)	Statoil	Vice President level	Interview took place in Oslo on June 14, 2012.
Hans-Joachim Gornig	Gazprom Marketing & Trading, Gazprom Germania	Retired Director, member of Board of Directors	Interview took place in Berlin on May 14, 2012.
GazpromNeft rep (non-attributed)	GazpromNeft	Deputy Director, Downstream Operations	Interview took place in Moscow on November 30, 2011.
Dr. Leiv Lunde	Fridtjof Nansen Institute	Director	Interview took place in Oslo on June 15, 2012.
Dr. Leonid Grigoriev	Russian Energy Agency at Higher School of Economics, Russian Institute for Energy and Finance, Member of EU-Russia Energy Dialogue Committee, Russian Ministry of Economics and Finance	Director and Dean at Higher School of Economics, former Russian Deputy Minister of Economics and Finance, Member of EU-Russian Energy Dialogue, former Director of Russian Institute for Energy and Finance	Interview took place in Moscow on November 24, 2011.
Mette Gravdahl Agerup	Norwegian Ministry of Petroleum and Energy	Assistant Director General	Interview took place in Oslo on June 18, 2012.
Ole Anders Lindseth	Norwegian Ministry of Petroleum and Energy	Director General	Interview took place in Oslo on June 18, 2012.
German diplomat (non-attributed)	German Ministry of Foreign Affairs	Embassy of Germany in Moscow	Interview took place in Moscow on November 29, 2011.
Rolf Einar Fife	Norwegian Ministry of Foreign Affairs	Director General, Legal Affairs	Interview took place in Oslo on June 15, 2012.
Dr. Rolf Tamnes	Norwegian Institute for Defence Studies	Professor and former Director	Interview took place in Oslo on June 6, 2012.
TNK BP representative (non-attributed)	TNK BP	Commercial Director, Upstream	Interview took place in Moscow on November 30, 2011.

9. Organisations represented in interviews

Cambridge Energy Research Associates (CERA)
Committee on EU-Russia Energy Dialogue
Embassy of Germany in Moscow
Fridtjof Nansen Institute
Gazprom Germania
Gazprom Marketing & Trading
GazpromNeft
Higher School of Economics (Moscow)
Norwegian Institute for Defence Studies
Norwegian Ministry of Defence
Norwegian Ministry of Finance
Norwegian Ministry of Foreign Affairs
Norwegian Ministry of Petroleum and Energy
Russian Academy of Sciences
Russian Ministry of Economics and Finance
Statoil
TNK BP
University of Oslo

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