

# The Norwegian economy and the sea

Speech by Governor Øystein Olsen at a business sector seminar in Lofoten, in connection with the launch of the new 100-krone and 200-krone banknotes.

This is a day I have been looking forward to for a long time – it's not every day a new banknote series is put into circulation. The last time was in 1994. And being able to hold the launch here in the Lofoten islands is an added bonus. The sea and the Lofoten islands are inextricably linked – the sea is a defining feature of the landscape and a key source of food, employment and recreation.

Norway's coastline is embraced by the sea from the northernmost point to the southernmost tip. The sea has shaped our history and our economy, and from today onwards, it will also feature on Norwegian banknotes. Norges Bank has been governed by our elected representatives since 1816 under a clear mandate: to safeguard the monetary system and the value of our money. Norges Bank's banknotes and coins are the community's money, and our trust in the value of our banknotes is closely linked to our trust in each other. With this in mind, it was important to design banknotes that would tell a story about us as a community of people. As the sea is a key dimension in that story, it was chosen as the theme of the new banknote series.

*Chart: The 50-krone banknote (The Lighthouse)*

As Norwegians, we carry with us a long and rich history of living from and with the sea – from the seafarers of the medieval Saga Age to today's international shipping companies. For centuries, the shipping route along our coast was our lifeline. Goods from all over the country were ferried via inland waterways out to the coast and from there to other parts of Norway and to other countries. From near and far, other goods came in return.

But the coastline of Norway is also dangerous. Without seamarks and lighthouses, safe travel along the coast or through narrow coastal channels would be impossible. A total of 21 000 lighthouses and seamarks safeguard navigation along our coast.

*Chart: The 100-krone banknote (The Gokstad Ship)*

Seamarks have a long history in Norway. As early as the year 869, Vikings on their way home were able to steer their ships towards the mouth of the Hardangerfjord guided by a bonfire built on a cliff-top cairn.

The Vikings were not only plunderers and pillagers, but boatbuilders and, not least, skilled seamen. They built Norway's reputation as Europe's leading sea power, while the sea took them out into the world and into contact with other cultures.

The Vikings were also traders, and they knew that the sea was a versatile resource. Ever since the end of the Ice Age, when the glaciers retreated and the very first Norwegians made their homes near the seashore, we have harvested food from the sea. But we also learned early on that fish was valuable as a form of currency. As early as in the medieval era, dried

cod from Norway was a sought-after product further south in Europe. With their ships laden with dried cod, the Vikings were able to trade the fish for beautiful cloth, exotic spices and precious metals.

*Chart: The 200-krone banknote (The Cod)*

Fishing has been a key source of income and an integral part of the coastal culture in Norway for centuries. For many people, fish has been a crucial part of their diet. Some crops do not thrive in Norway's climate of long winters and cool summers. Cod and herring, trout and salmon, on the other hand, have flourished. Sturdy boats designed to cope with the rough waves and unpredictable winds of the open sea enabled us to bring the catch to shore. And before more modern transportation routes became available, cargo ships were needed to transport the catch to customers at home and abroad.

*Chart: Distribution of exports 1835*

The possibility of storing and transporting fish over long distances generated jobs and foreign exchange income. In 1835, 39 percent of Norway's export revenues came from the sale of fish. Shipping provided 25 percent of Norway's export revenues.

Consequently, it has always been important for the country's economy to ensure market access for Norwegian seafood exports, as was the case during Norway's prohibition period in the 1920s. A referendum held in 1919 resulted in a majority vote to ban the import and sale of fortified wines and spirits. However, the ban on fortified wine imports soon had to be lifted. Fortified wine producers in southern Europe were important recipients of Norwegian fish. In the trade war that ensued, Portugal retaliated by imposing high tariffs on Norwegian dried fish. To avoid these tariffs, Norway eventually had to accept the import of large quantities of Port and Madeira wines.

*Chart: Rise of Norwegian shipping*

Trade and the cross-border exchange of goods allow countries to exploit their comparative advantages more efficiently. But – as we experienced during the prohibition period – this requires a mutual understanding of the need for open markets.

As a small open economy, Norway has always stood to gain from liberal trade regimes. The upswing for Norwegian shipping that began in the mid-1800s is a good example. Shipping had long been an important export industry for Norway, but freight transport mostly comprised goods exports from or imports to Norway. This changed in the mid-1800s. In 1849, England repealed its Navigation Act. Trade with English colonies would no longer be restricted to English ships. Freer world trade led at the same time to higher demand in the shipping freight market. The Norwegian shipping industry made good use of the opportunity: we had good ships, skilled crews and experience of ocean transport. Over the course of the next 25 years, the Norwegian merchant fleet increased four-fold.

*Chart: Distribution of exports – 1835 and 1950*

The foundations of a modern shipping nation had been laid. Soon, most of the ships in the fleet were travelling between foreign ports, generating important export revenues. A hundred years after the repeal of the Navigation Act, shipping accounted for almost half of Norwegian export revenues. The era of the sailing ship had passed, but we had been able to utilise new shipping technology, both as shipbuilders and as sailors.

Shipping and the maritime sector are still important drivers of the Norwegian economy and a significant source of livelihood for many Norwegians. Norwegian shipping technology still ranks among the best in the world, and a large proportion of Norway's imports and exports are transported by ship. In Tokyo, Japanese sushi chefs go to the fish market every morning to buy Norwegian salmon. Delicious dishes made from Norwegian dried cod are served in the backstreet restaurants of Barcelona. And in Norway, Bacalhau, a Portuguese dish based on dried cod, has been adopted as a dish for festive occasions.

The nature of work at sea has changed. Norwegian sailors are in the minority in the merchant fleet, and large factory ships have taken over from traditional fishing boats. Shipping and fishing generate far fewer jobs now, and for those who still have the sea as their workplace, work is less arduous and less dangerous than it used to be.

#### *Chart: From fishing to fish farming*

The nature of the fishing industry has also changed. The fish farming industry is one of our newest growth industries, and more than two-thirds of the supply of seafood now comes from fish farming. Through collaborative efforts in research and product development, fish farming methods have been developed to supply consumers with good-quality farmed salmon, available straight from the supermarket.

But fortunately, many Norwegian consumers would say, the traditional tinned fish produced by the factory here in Lofoten for the past 100 years, is only a couple of shelves away. With rich fishing banks right outside the factory door, there is an ample supply of fresh fish.

Historically, fishing in Lofoten has been an important source of income for the coastal population. The traditional fishing season at the beginning of the year still attracts fishermen from all over the country, but in numbers far lower than the up to 30 000 who used to take part. For three hectic months from mid-January each year, a variety of visitors, from fishermen and traders to watchmakers, travelling musicians and the odd snake oil salesman used to make their mark on this island community.

Lofoten continues to attract visitors today – but now the fishermen's cabins are filled with tourists. In just a few years, the number of tourist overnight stays in Nordland county has increased by 25 percent, with many visitors making the journey from faraway countries, tempted by the prospect of deep-sea fishing, sea kayaking and hiking. The sea and the coastal landscape are still a resource that generates jobs – albeit of a different kind today.

#### *Chart: The 500-krone banknote (reverse)*

The sea proved to have even more to offer the Norwegian nation. A new turning-point in our history was reached when the first barrel of oil was pumped up in 1971. In the years that have followed, the oil and gas industry has been a fundamental mainstay of the economy.

*Chart: From shipbuilding to platform construction*

For Norwegian manufacturing, the discovery of North Sea oil came at a convenient time. The shipping industry was being hard hit by the international tanker crisis. At one point, a quarter of the Norwegian tanker fleet in terms of tonnage was laid up. New shipbuilding orders ground to a halt, and workers were laid off. But shipping industry labour and real capital in the form of docks, machinery and equipment were easily adapted to the production of oil platforms and other goods and services needed in the offshore oil sector.

The Norwegian business sector has made good use of the opportunities provided by the discovery of oil. The extraction of oil at extreme ocean depths required the development of new technology. The specialised expertise that has been built up has secured contracts – and not just off the shores of Norway. Offshore activity has had substantial spillover effects on other industries. An advanced oil service industry has emerged, and small local communities have been able to broaden their economic base.

*Chart: Distribution of exports – 1835, 1950 and 2016*

The oil sector has generated substantial revenues for Norway. And we have extracted large quantities of oil and gas at favourable prices. From the end of the 1990s and up to 2014, the price of North Sea oil rose from about USD 10 to more than USD 100 per barrel. In spite of the fact that oil prices have fallen by about half compared with a few years ago, sales of oil and gas still provide a third of the country's export revenues.

The substantial profits generated by the petroleum sector have been managed efficiently. Our economy is in good order. Well-functioning institutions and a high degree of trust between the various social groups provided a solid foundation. It was established at an early stage that Norway's oil and gas reserves belong to the people. The system of taxation and framework conditions for the petroleum industry were designed so that the large profits from this sector would accrue to the state. We have been able to enhance public welfare and prosperity.

*Chart: From natural resources to financial wealth*

At the same time, Norway's subsea petroleum wealth has to a large extent been transformed into foreign financial assets. With the oil fund, not only current but also future generations will benefit from our oil and gas reserves. The capital in the oil fund is more than two and a half times the size of mainland GDP. As oil and gas production gradually dwindles, Norway's petroleum wealth will continue to generate profits in the form of income from the fund.

*Chart: Per capita GDP. Norway and other countries – 1970 and 2015*

The discovery of oil marked the beginning of an extraordinary era for the Norwegian economy. Before oil was discovered, the income level in Norway was low compared with other western countries. Today, the picture has been reversed. We have gradually caught up with the wealthiest countries. Norway's GDP per capita is one of the highest in the world.

*Chart: The 1000-krone banknote (The Ocean Wave)*

For over a thousand years, the sea has been the source of our wealth and the basis of our contact with the rest of the world. New industries and new technology are redefining our coastal and maritime economy. When the Norwegian economy has been hit by waves, we have used the force of those waves to move forward. And we will continue to do so in the years ahead. The shipping industry is one of the world's most advanced in terms of developing energy-efficient vessels. The pharmaceutical industry is conducting research into the effect of marine-derived products on a variety of diseases. Wind and wave power will be sources of clean and renewable energy.

At the same time, climate change and the loss of biodiversity present challenges that must be met. A continued commitment to maritime and marine research in the years ahead will be an important contribution to maintaining sustainable development. With new knowledge and new solutions, the sea will continue to be a force that carries us forward.

*Chart: The new banknotes*

More than a thousand years ago, the Vikings brought home the idea that Norway should have its own monetary system. Olav Trygvason was to be the first Norwegian king to have his name stamped on Norwegian coins. Our methods of payment have changed since then – from coins via banknotes and plastic cards to online and mobile payments. But banknotes and coins will stay with us. Norges Bank's responsibility is to ensure that they are safe to use – based on the most advanced modern technology. And they should be beautiful – as beautiful as the sea that surrounds us.

Thank you for your attention.