The Norwegian Petroleum Experience

“Civil society and natural resource management”

Norwegian Institute of International Affairs (NUPI)
Tuesday, October 14 2014
Kl.1500-1600

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The Norwegian Petroleum “model”


When petroleum activities started in the 1960s and 1970s, Norway had close to no knowledge about the petroleum industry.

THE VISION: A declaration of the principles for Norwegian oil policy:

The ”10 Oil Commandments” of 1971:

- The natural resources on the Norwegian Continental Shelf (NCS) should benefit the entire nation

(The industrial committee’s report to the Parliament 14.6.1971…)

-> A heavy role for the Norwegian state system
Norway’s 10 Oil Commandments

1. That **national management and control** must be secured over all operations on the Norwegian continental shelf.

2. That petroleum discoveries are exploited in a way which minimizes Norway's dependence on others for crude oil supplies.

3. That **new industrial activities** should be developed on the basis of petroleum.

4. That development of an oil industry must take the necessary account of existing industrial operations and of protecting nature and the environment.

5. That flaring of usable gas on the Norwegian continental shelf must not be accepted except for brief periods of testing.

6. That petroleum from the Norwegian continental shelf must, as a main rule, **be landed in Norway** with the exception of individual cases where national policy concerns call for a different solution.

7. That the **state becomes involved at all appropriate levels**, and contributes to a coordination of national interests in the Norwegian petroleum industry as well as the creation of an integrated **Norwegian petroleum community** which sets its sights both nationally and internationally.

8. That a **state oil company** be established to take care of the state's commercial interests and to maintain suitable collaboration with domestic and international petroleum interests.

9. That a pattern of activity be selected north of the 62nd parallel [i.e., outside the North Sea] which satisfies the special policy concerns that apply in this region.

10. That Norwegian petroleum discoveries on a large scale could add **new dimensions to Norway's foreign policy.**

*Source: Stortingsmelding 1971 (unofficial translation by NPD 2000).*
The state and the build-up of the Norwegian petroleum industry

- **Political background:** “Traditional” social democracy with strong state involvement
  - Experiences from the hydro power sector
  - Strong involvement in industry and economic affairs especially after WWII

- **Established in 1972 (unanimous Storting / Parliament):**
  - Statoil as a fully state-owned company
    - Instrument for governmental control and as industrial locomotive
  - A petro bureaucracy
    - Norwegian petroleum directorate (NPD), strengthening of the ministry (IM -> MPE)
    - Good resource management and maintenance of sovereignty

- **Political authorities, political leaders and the bureaucracy closely tied together**
  - “The labor party on all sides of the table”
  - The question was never (then or later) whether the state should be involved or not, but how. Across party lines.

- **Infant industry protection**
  - Preference for Norwegian suppliers
  - Statoil (and later Hydro) got the best licenses
    - Statoil got typically 50% or more + Gliding scale + Carrying principle
  - The internationals should teach us how to do it
    - Case: Statfjord and Statoil take-over after Mobil as operator

- **External forces**
  - Nationalization of oil industry in OPEC countries
The role of the state and the business - government mixture changes over time

- Control through Statoil was gradually replaced by a more direct governmental control system (principal agent critique)
  - 1984: The establishment of State’s Direct financial interests (SDFI)
    - The “Wing clippings” of Statoil
  - 1985: A gas negotiation committee (Ministry of Petroleum and Energy – MPE - to accept contracts)
  - 1985: The supply committee (MPE to queue fields and production)
  - Two other Norwegian companies Hydro and Saga were growing in importance

- Industrial and market maturation, lower prices after the mid-1980s.

- EU regulations and the privatization in 2001 makes the role of MPE more explicit
  - Statoil partly privatized (now ca 70 % owned by government). From a NOC to a SNOC.
    - Only maximize profit
    - Petoro established to take care of SDFI
  - Reorganization of gas sales and transportation (EU)
    - Gassco and GasLed

- The merger between Statoil and Hydro’s oil and gas division in 2006 gave Statoil elements of monopolistic position on the NCS.
  - No compensatory measures taken by the MPE

- Conclusion: The relationship between the company and government has formally changed, but:
  - Statoil is still selling SDFI / Petoro oil and gas (and has swallowed Hydro oil and gas division)
  - Petoro and Statoil represent some 70-80 % of total production
  - Norway never liberalized the petroleum sector as part of the liberal winds from the 1990s.
    - Canada, UK

- Question: Company competence and interests vs the State and the ministry?
  - Are commercial interests increasingly overrunning political / national considerations?
  - Is Statoil increasingly running Norwegian petroleum policy?
Location and employment in the Norwegian supply industry.

<table>
<thead>
<tr>
<th>Location</th>
<th>Employment in the supply industry 2009</th>
<th>Employment growth 2000-2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rogaland</td>
<td>41100</td>
<td>114</td>
</tr>
<tr>
<td>Hordaland</td>
<td>19300</td>
<td>186</td>
</tr>
<tr>
<td>Akershus</td>
<td>12500</td>
<td>118</td>
</tr>
<tr>
<td>Møre og Romsdal</td>
<td>9100</td>
<td>84</td>
</tr>
<tr>
<td>Vest-Agder</td>
<td>5900</td>
<td>416</td>
</tr>
<tr>
<td>Sør-Trøndelag</td>
<td>5000</td>
<td>81</td>
</tr>
<tr>
<td>Oslo</td>
<td>4800</td>
<td>-22</td>
</tr>
<tr>
<td>Buskerud</td>
<td>3800</td>
<td>68</td>
</tr>
<tr>
<td>Vestfold</td>
<td>3700</td>
<td>173</td>
</tr>
<tr>
<td>Telemark</td>
<td>2900</td>
<td>702</td>
</tr>
<tr>
<td>Aust-Agder</td>
<td>1900</td>
<td>-14</td>
</tr>
<tr>
<td>Sogn og Fjordane</td>
<td>1000</td>
<td>-15</td>
</tr>
<tr>
<td>Nordland</td>
<td>1000</td>
<td>-1</td>
</tr>
<tr>
<td>Nord-Trøndelag</td>
<td>900</td>
<td>397</td>
</tr>
<tr>
<td>Troms</td>
<td>500</td>
<td>180</td>
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<tr>
<td>Finnmark</td>
<td>300</td>
<td>147</td>
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<tr>
<td>Østfold</td>
<td>200</td>
<td>183</td>
</tr>
<tr>
<td>Hedmark</td>
<td>100</td>
<td>85</td>
</tr>
<tr>
<td>Oppland</td>
<td>100</td>
<td>5</td>
</tr>
</tbody>
</table>
Norway has a sea territory 7 times larger than mainland Norway.

More than 60% of Norwegian exports come from the sea:
- Fishery, shipping, oil and gas

5 million people (~1% of EU, <1% of world)

High per capita income – a very rich state
Value Creation in Norwegian Sectors 2011

- Oil and gas extraction including services
- Health and social work
- Manufacturing
- Wholesale and retail trade
- Construction
- Public administration and defence
- Financial intermediation
- Business services
- Transport
- Primary industries
- Ocean transport

Source: MPE Fact Sheet 2012
Calculation of the Norwegian tax on petroleum companies

Operating income (norm price)
- Operating expenses
- Linear depreciation for investments (6 years)
- Exploration expenses, R&D and decommissioning
- CO₂-tax, NOₓ-tax and area fee
- Net financial costs

= Corporation tax base (tax rate: 27 %)
- Uplift (7.5 % of investment for 4 years)
= Special tax base (tax rate: 51 %)

78 % of net (economic) profit

Source: MPE Fact Sheet
The State’s Direct Financial Interest (SDFI)

- The State owns directly interests in a number of oil and gas fields, pipelines and onshore facilities in order to take the risk and costs, but also ALL the economic rent.

- The state pays its share of investments and costs, and receives a corresponding share of income from the production license.
  - The expenditures are accounted when they occur, so are also the revenues (no depreciation)

- Established in 1985 as part of the “Wing-clippings” of Statoil (one share of “old” Statoil for the “new” Statoil and the other for SDFI.
  - Prior to this Statoil alone was responsible for the state’s ownership holdings in production licenses

- Typically, the SDFI takes high shares of the most profitable fields and low, or no, in more marginal fields

- When Statoil was privatized in 2001, the administration of the SDFI was transferred to the state-created trust company Petoro

- Petoro is the largest licenceholder on NCS (24 % oil, 41,6 % gas) and represents today more than 40 % of total production

Source: MPE Fact Sheet 2005
Net Norwegian government cash flow from petroleum activities 1970-2013

1996: First money into the Fund

(= ca. 90 Bill USD)

Source: MPE Fact Sheet 2014
The Net cash flow goes into the Petroleum Fund (now called the Government Pension Fund – Global)

- The government uses some of it to balance the Budget. The “4 percent fiscal rule” (Handlingsregelen).
- The rest is saved in international portfolio investments together with the return on these investments
- With high oil prices and a large fund – the capital increases rapidly

Source: Fact Sheet 2014
<table>
<thead>
<tr>
<th>Country</th>
<th>Sovereign Wealth Fund Name</th>
<th>Assets $Billion</th>
<th>Inception</th>
<th>Origin</th>
<th>Linaburg-Maduell Transparency Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Norway</td>
<td>Government Pension Fund – Global</td>
<td>$803.9</td>
<td>1990</td>
<td>Oil</td>
<td>10</td>
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<tr>
<td>Saudi Arabia</td>
<td>SAMA Foreign Holdings</td>
<td>$675.9</td>
<td>n/a</td>
<td>Oil</td>
<td>4</td>
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<td>UAE – Abu Dhabi</td>
<td>Abu Dhabi Investment Authority</td>
<td>$627</td>
<td>1976</td>
<td>Oil</td>
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<td>China</td>
<td>China Investment Corporation</td>
<td>$575.2</td>
<td>2007</td>
<td>Non-Commodity</td>
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<td>China</td>
<td>SAFE Investment Company</td>
<td>$567.9**</td>
<td>1997</td>
<td>Non-Commodity</td>
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<td>Kuwait</td>
<td>Kuwait Investment Authority</td>
<td>$386</td>
<td>1953</td>
<td>Oil</td>
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<td>China – Hong Kong</td>
<td>Hong Kong Monetary Authority Investment Portfolio</td>
<td>$326.7</td>
<td>1993</td>
<td>Non-Commodity</td>
<td>8</td>
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<td>Singapore</td>
<td>Temasek Holdings</td>
<td>$173.3</td>
<td>1974</td>
<td>Non-Commodity</td>
<td>10</td>
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<tr>
<td>Total Oil &amp; Gas Related</td>
<td></td>
<td>$3,528.5</td>
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<td></td>
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<tr>
<td>Total Other</td>
<td></td>
<td>$2,491.5</td>
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<td></td>
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<tr>
<td>TOTAL</td>
<td></td>
<td>$6,020.0</td>
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</tbody>
</table>

Source: Sovereign Wealth Fund Institute / Data from September 2013
Norway

Sovereign Wealth Fund Assets Map

Red = Oil & Gas
Blue = Non-Oil & Gas

Source: Sovereign Wealth Fund Institute / Data from September 2013
Challenges

- Oil dependency – double economy?
- The Fund: How shall it eventually be used or shall we «only» accumulate more?
- Easy come – easy go
  - Identity – political system to handle the money over time
- World and European economic and political developments
  - Financial crash?
  - Economic and political weights move from West to East
- The industry: New energy sources come (shale oil / gas, renewables..)
  - Price consequences
- Other?
Thank a lot for your attention!

Questions – remarks?

Ole Gunnar Austvik