

Norway

Resource management and nation building

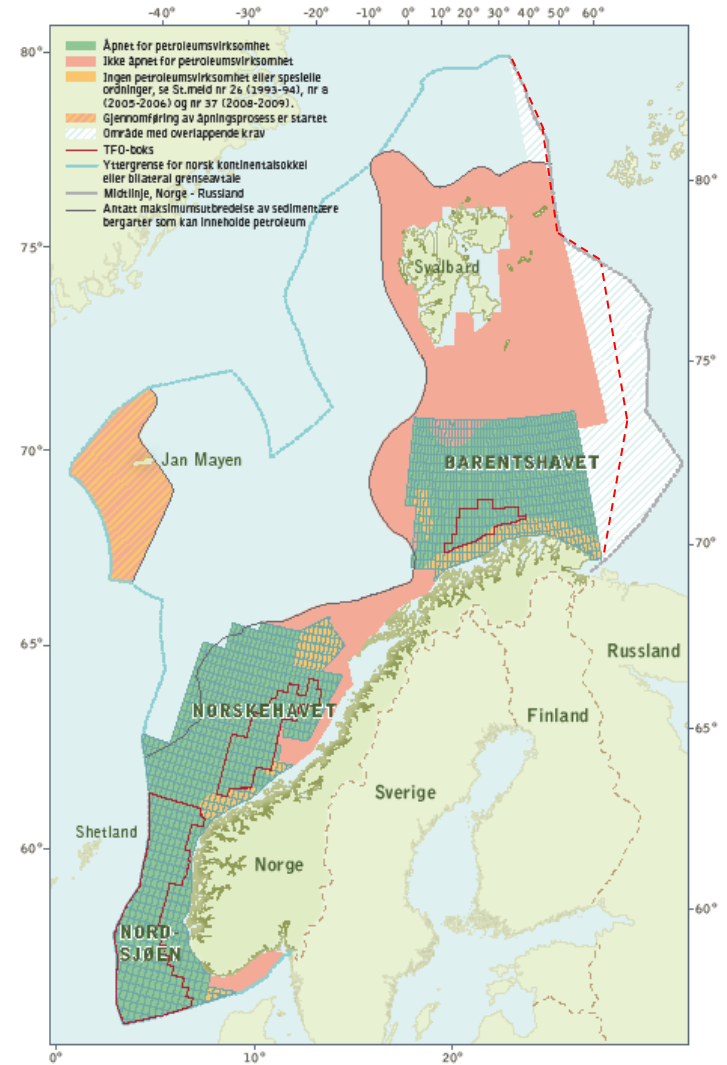
Johan A. Alstad
Deputy Director General
Norwegian Ministry of Petroleum and Energy

The Canon Institute for Global Studies
Tokyo 22 September 2010

Norway

The Norwegian Continental Shelf

- Land area: 323 782 km²
- NCS: 2,2 million km²
 - Half of this area contains sedimentary rock where petroleum may be discovered
 - Half of this area has been opened for petroleum activity
- Produced 40 % of the expected total recoverable resources on the NCS



----- Illustrative, not the exact line

Norway – key economic figures (2009)

General data	
Population	4 888 000
Unemployment	3,5 %
CPI	+ 1,9 %
GDP per capita*	79 500 USD

Petroleum sector	
State revenues	45 bn USD
Exports	77 bn USD
Global Pension Fund	426 bn USD
Supply industry (sales)	39 bn USD

*OECD ranking GDP per capita

Luxembourg

Norway

United States

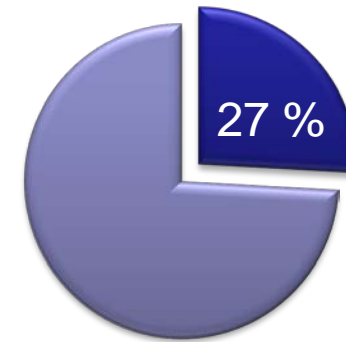
Switzerland

Petroleum sector – key figures (2009)

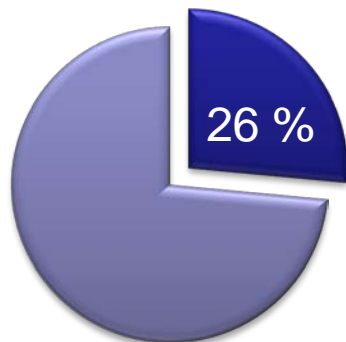
Share of GDP



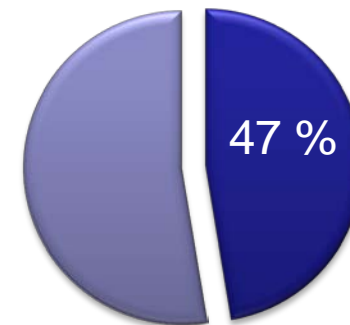
Share of state revenues



Share of total investment



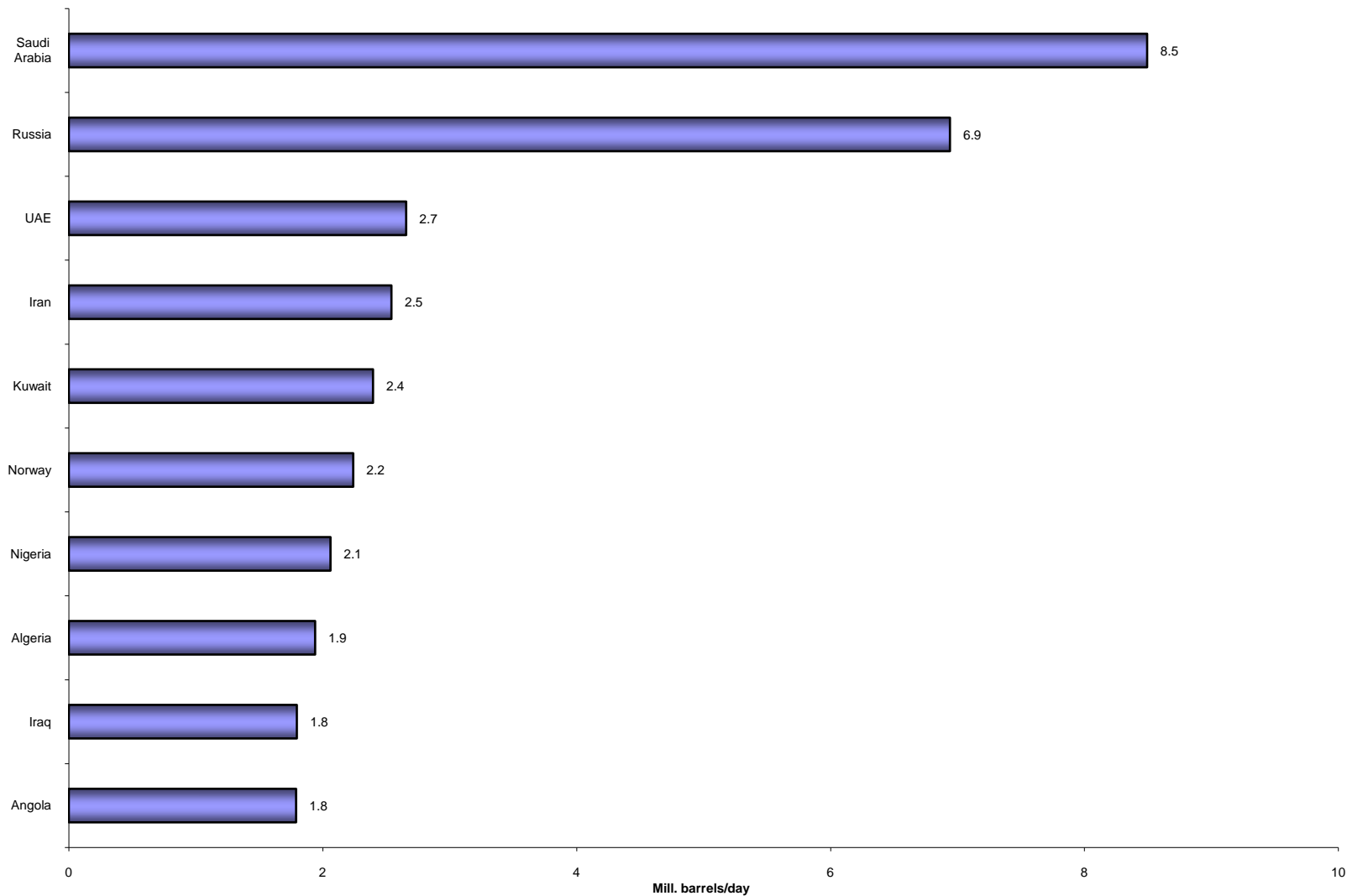
Share of total exports



Source: Statistics Norway, Ministry of Finance

Petroleum sector – key figures (2009)

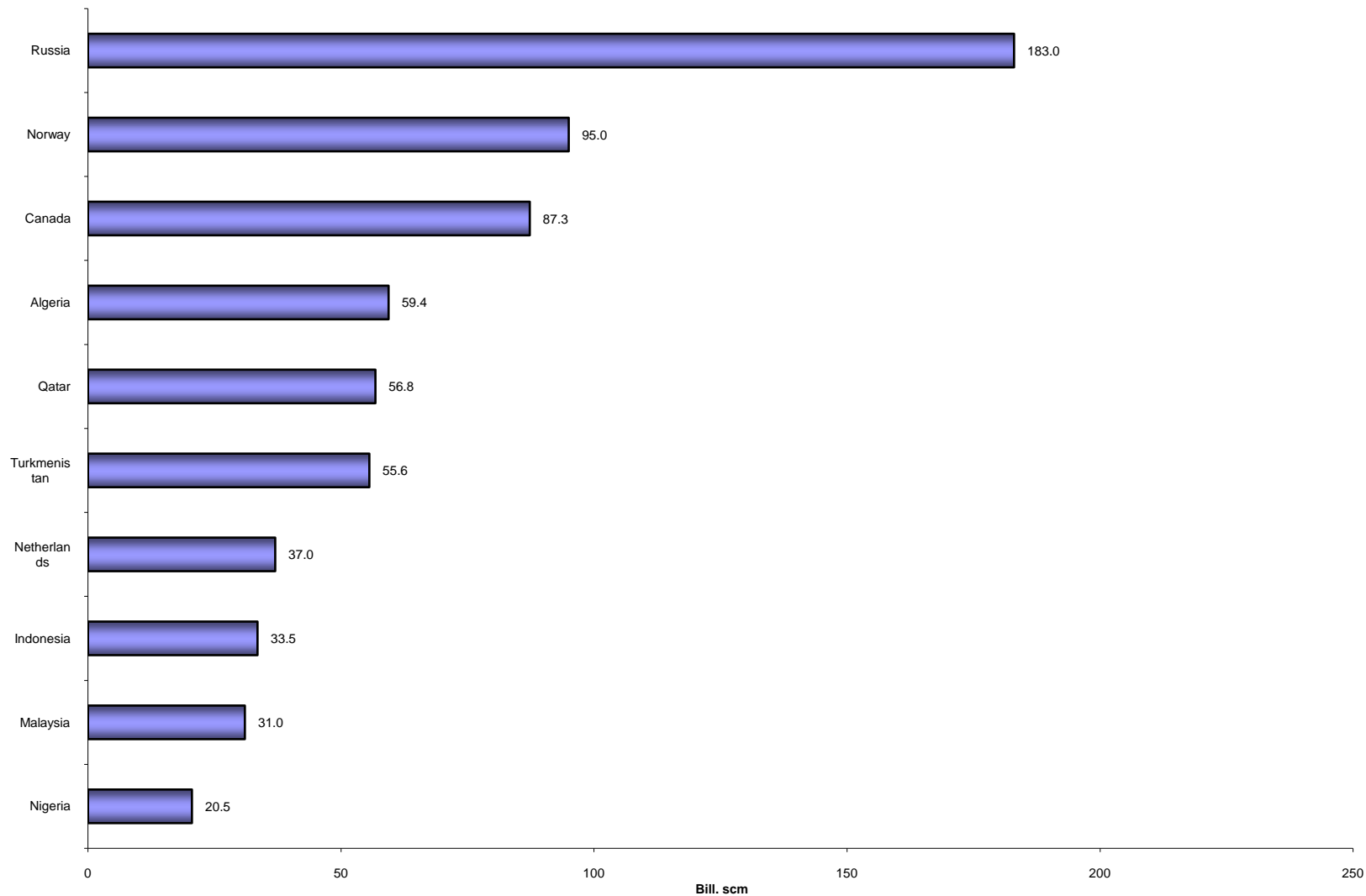
Million barrels oil per day (export)



Source: KBC Market services /Cedigaz

Petroleum sector – key figures (2009)

Billion scm gas per year (export)



Source: KBC Market services /Cedigaz

Some fundamentals

How the industrial, economic and welfare growth came about

- Policy making and legal base
- Technological base
- Industrial development and institutions
- Competition and cooperation



Agenda

- ✓ **Policy making and legal base**

Technological base

Industrial development and institutions

Competition and cooperation

Conclusion



Policy making and legal base

Framework

- **Policy vision**
 - Petroleum activities shall be managed to the benefit of the Norwegian society as a whole
 - Maximise value creation
 - Political consensus
 - But: “High politics”
- **Legal base**
 - The right to subsea petroleum resources is vested within the state
- **Legal development**
 - Continuous legal development since 1963
- **Revisions and amendments during the years due to domestic or international needs**

Policy making and legal base

Framework

- Detailed regulations on resource management, safety and tax
- Delimitation lines UK and Denmark 1965, Russia 2010
- **Concession framework***
 - Application criteria
 - Award criteria
 - Joint operation agreement
 - Accounting agreement
 - Offering and acceptance
 - Award by the Government

Rule of thumb

- **First: Policy and legal framework**
- **Then : Invite commercial players**

Agenda

Policy making and legal base

✓ **Technological base**

Industrial development and institutions

Competition and cooperation

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Technological base

Historical development

- **From early 1900**
 - Hydro power development
 - Shipping and shipbuilding
 - Engineering, technological and organisational skills and competence
- **After WWII**
 - Nation building policy
 - State and private capital invested in depleting natural resources like mining, iron and steel works and aluminium
- **Mid-1960s**
 - Norway was in general technologically industrially prepared when oil & gas activities commenced
 - However, non-existing petroleum industry
 - Tools:
 - international oil and gas expertise in government and industry
 - intensify domestic educational programmes: geologists, geophysicists, reservoir engineers, lawyers, economists etc.

Agenda

Policy making and legal base

Technological base

✓ **Industrial development and institutions**

Competition and cooperation

Conclusion



Industrial development and institutions

Historical development

- **1965**
 - First licensing/concession round
 - International applicants
 - Necessary laws and regulations were in place

Some of the first companies operating on the Norwegian Continental Shelf



Industrial development and institutions

Historical development

- **1969**
 - First oil discovery
 - System changes required
- **1972**
 - Petroleum directorate (resources and safety)
 - Statoil (business/commerce)
 - Ministry of Industry increased capacity and competence
- **1978**
 - Ministry of Petroleum and Energy
 - Safety issues separated from resource management on a ministerial level
- **2004**
 - Petroleum Safety Authority established (now subordinated the Ministry of Labour)



Industrial development and institutions

Long established principle of division of powers

- **National assembly (laws, budget, major decisions)**
- **Government/ministries (execution of policies)**
- **Subordinate institutions (directorates, technical branches)**
- **Business/commercial activities run by companies**

**Arms length distance between government bodies and businesses,
government accessibility/dialogue**

Industrial development and institutions

Essential prerequisite

Recruiting the right people with the right skills and competences prior to and in parallel with industry development



Agenda

Policy making and legal base

Technological base

Industrial development and institutions

✓ **Competition and cooperation**

Conclusion



Competition and cooperation

Motivate competition

- **The Norwegian Continental Shelf was an attractive geological province**
 - Early 1960s discoveries of oil and gas had already been made in the UK and in the Netherlands
- **Attract international companies with technological and financial capacity**
- **Avoid monopoly (the Danish situation)**
- **Use regulations and concession system and market mechanisms/diversity to stimulate competition**
- **Incentivate the oil and gas companies as “agents” for the State**
- **Learning by doing - Industrial ambition**



Competition and cooperation

Domestic companies

- **Build up national upstream and support industry**
 - Capacity alongside the international companies
- **Statoil**
 - 100 % owned by the state
 - Today listed, 67 % state owned
- **NorskHydro**
 - 51 % owned by the state
 - Today 43 % state owned
 - Oil and gas division merged with Statoil in 2007
- **Saga**
 - Privately owned
 - Today non existing
 - Merged partly with Statoil and partly with NorskHydro in 1999



Competition and cooperation

Corporation diversity

- **Cooperation between:**
 - the companies themselves
 - international and national oil companies
 - government and the industry (open doors / accessibility)
 - operators and the supply industry
 - business and academia etc



Competition and cooperation

Supply industry

- **Local content was initially a governmental requirement on the upstream companies**
- **Constituted a growth platform for Norwegian supply industry**
- **The government contributed to creating a domestic market**
- **That policy was abolished in the mid 1990s**
- **Now: True competition**
- **The Norwegian supply industry has a leading edge in several technical nichés**
- **Globally competitive**
- **14 % market share of the international market**



Competition and cooperation

Sharing risk

- The Norwegian state and the oil and gas companies share risk through the tax system and the state direct investments in the upstream sector

Sharing information

- Sharing information between the industry and the government to obtain good resource management
- Government bodies, especially the Petroleum Directorate, has been a “hub” for sharing technical information (seismic information, well information etc.)

Agenda

Policy making and legal base

Technological base

Industrial development and institutions

Competition and cooperation

✓ **Conclusion**



Conclusion

Key success indicators

- Long term policy, but responsive to change when necessary
- Predictability, transparency, clarity when it comes to the content and the administration/use of laws, rules and regulations
- Clearly defined roles and responsibility between government bodies and between government and industry
- Bold but realistic ambitions on balancing between business/commercial needs and state revenues (“fair share”)
- Respect industry needs, but non-tolerance regarding negative attitudes/tendencies to undermine the State’s legitimacy. Prudent operators.
- Balancing competition and cooperation – the “right” incentives
- Do not underestimate luck and intelligent individuals!





Thank you for your attention!