IGF

INTERGOVERNMENTAL FORUM on Mining, Minerals, Metals and Sustainable Development

IGF Guidance For Governments: Leveraging Local Content Decisions for Sustainable Development

CASE STUDY

NORWAY: NATIONAL CAPACITY

STATOIL AND THE NORWEGIAN OIL SUCCESS STORY

OVERVIEW

LEVEL OF OPERATION:
National

GOVERNMENT ROLE:
Full responsibility

FOR MORE INFORMATION:
See Statoil

KEY COMMODITIES:
Oil and gas[1]

TOTAL NATURAL RESOURCE RENTS (AS % OF GDP) (2015):
5.4 per cent[2]

NATIONAL EXTRACTIVES COMPANY:
Statoil (oil and gas)

UNDP HUMAN DEVELOPMENT INDEX VALUE (2016):
0.949 (Global Rank 1)[3]

When oil was discovered in the 1960s, the Norwegian economy was already relatively advanced, with high levels of education, democratic consolidation and secure institutions. However, Norway was not a rich country by OECD standards. The government's response to the discovery of oil, including its local content policies and the creation of the SOE Statoil, has meant that over the past few decades, GDP per capita has increased from 90 per cent to 150 per cent[4] of the OECD average, and the Norwegian economy has not become oil-dependent. Today, Norway is ranked first on the UNDP Human Development Index.

---

[1] Central Intelligence Agency (CIA). (2017). *The world factbook*. Washington, DC: CIA. Retrieved from: https://www.cia.gov/library/publications/the-world-factbook/fields/2111.html

[2] World Bank Group. (2017). *Total natural resource rents (% of GDP)*. Washington, DC. Retrieved from https://data.worldbank.org/indicator/NY.GDP.TOTL.RT.ZS

[3] United Nations Development Programme. (2016). *Human Development Reports: Norway*. Geneva, Switzerland. Retrieved from http://hdr.undp.org/en/countries/profiles/NOR

[4] Havro, G. B. & Santiso, J. (2008). *To benefit from plenty: Lessons from Chile and Norway* (OECD Policy Brief No. 37). Retrieved from https://www.oecd.org/dev/41281577.pdf

THE ROLE OF STATOIL

The evolution and impact of Statoil in the Norwegian economy is one of the best examples of the positive role a state-owned enterprise (SOE) can play in building domestic capacity and ensuring that citizens benefit from extractive industries.

Statoil was created in 1972 with the explicit aim of securing the greatest possible share of the oil rent for the Norwegian state to distribute to its citizens. In the view of its initiators, achieving this required control of the oil industry in terms of knowledge, production and regulation.

Statoil was given privileged access to the oil fields in a way that concentrated initial investment and risk with foreign multinational oil companies while giving a large share of the benefit to Statoil.

Statoil was given privileged access to the oil fields in a way that concentrated initial investment and risk with foreign multinational oil companies while giving a large share of the benefit to Statoil. The state participation agreements with the international companies were amended to include a 50 per cent direct share to be granted to Statoil in every block, in addition to the carried interest share that was included prior to Statoil's formation. Statoil was thus given a majority ownership in every block developed, which could ultimately reach 80 per cent, but the carried interest enabled the state to combine a risk-averse posture with a very high share of direct state ownership. This was probably only possible due to the large size of the deposits; otherwise the payoff from limited ownership may not have met international firms' investment criteria. Given its majority ownership, Statoil could acquire expertise and information from the private companies, select its own partners in a handful of promising concessions and exercise a role as key adviser to the ministry.[5]

Statoil gained its capabilities through a partnership with Mobil which began in 1974 following the discovery of Statfjord, one of the largest oil fields in the North Sea. Through this partnership, Norwegian nationals gained management experience from Mobil that allowed Statoil in 1986 to take over all operations. It is important to note the timeframe: domestic capacity took time to build.

From the start, officials realized that they needed to manage the influence of multinational oil companies. This led to the creation of a strong regulator, but also shaped the role of Statoil. Norwegian policy-makers understood that the only way Statoil could stand up to the power of the multinational oil companies was by building independent technological capacity. They knew that it would not be possible to secure a high share of the economic rent if they did not have a technologically skilled Statoil in reserve, which could take over if the multinationals were to leave.[6]

Once Statoil gained expertise and could operate independently, it expanded its influence by creating linkages with the rest of the economy. It did so by focusing on supplier development, R&D, and building strong networks between universities, government organizations and other companies. Its investments in technology accelerated the

---

[5] Claes, D. (2002). *Statoil between nationalisation, globalisation and Europeanisation* (ARENA Working Papers WP 02/34). Retrieved from http://www.sv.uio.no/arena/english/research/publications/arena-working-papers/2001-2010/2002/wp02_34.htm

[6] Campbell, B. (2013). *The petro-path not taken: Comparing Norway with Canada and Alberta's management of petroleum wealth.* Canadian Centre for Policy Alternatives. Retrieved from https://www.policyalternatives.ca/publications/reports/petro-path-not-taken

development of the Norwegian supply industry. It prioritized technology and innovation over short-term profit maximization, which contributed significantly to the development of a high value-added domestic industry in oil services.[7]

INSTITUTIONAL SET-UP AND EVOLUTION

Although Statoil's management and institutional arrangements have evolved over time, a key component has been a clear separation of powers between state actors: parliament (legislative), the Ministry of Petroleum and its Petroleum Directorate (regulatory), and Statoil (operational).[8]

In the 1980s, concerns rose about the increasing reliance on Statoil and its dominance in the economy, and the overall shift toward an oil-dependent economy. Norway's government became worried that Statoil's power rendered the country vulnerable. The SOE had a strong incentive to increase its activity levels as much as possible, and to prevent capital from leaving for the state's coffers.[9] Like the case of Codelco in Chile, this highlights the inconsistent incentives between the state and the SOE: the company wants to retain as much profit as possible for reinvestment, and to concentrate greater power and influence, while the government's incentive is to extract as much as possible from the SOE without causing long-term damage. Since there is no clear way for the government to determine when a project is too expensive or how many employees an SOE really needs, the result is often a political compromise between the actors.

Norway's solution to this inconsistency was to split the state's direct share of oil fields away from Statoil in 1984. This meant that rents from oil fields (particularly new ones) went directly to the public treasury, reducing Statoil's size and growth, and forcing efficiencies. Statoil kept all revenues from the lucrative Statfjord field. This was part of a much wider program of government reorganization that would go on to generate a clearer delineation between state and societal actors.[10]

In 1990, the state's oil revenue was then moved to its sovereign wealth fund, thereby reducing the potential effect of oil price volatility on the budget. Over time, the government granted Statoil increased autonomy, with the ability to operate as a commercial entity and expand internationally. In 2001, Statoil became a publicly traded company, with the state retaining a 67 per cent ownership share.

Norway split the state's direct share of oil fields away from Statoil in 1984. This meant that rents from oil fields went directly to the public treasury, reducing Statoil's size and growth, and forcing efficiencies.

[7] Wicken, O. (2009). The layers of national innovation systems: The historical evolution of a national innovation system in Norway. J. Fagerberg, D. C. Mowery, and B. Verspagen (Eds.). *Innovation, path dependency and policy. The Norwegian case*. Oxford: Oxford University Press. 33–60.

[8] Campbell (2013), Id. note 6.

[9] Claes (2002), Id. note 5.

[10] Ibid.

KEY LESSONS

- SOEs can support longer-term state objectives, as they do not face the same short-term pressures as profit-oriented companies. To achieve this, the SOE needs some autonomy and the ability to resist pressure to contribute excessively to the national budget.
- In the beginning, insulation from political processes is important to allow the SOE to be run economically and build capabilities. The role of the SOE should evolve over time along with the economy and policy priorities.
- SOEs can also play an important role in reducing dependence on foreign investors. The existence and competency of Statoil was an asset in ensuring national benefits from oil resources in Norway, not just through the direct benefits derived from ownership, but also in terms of reducing information asymmetry and strengthening the government's hand in negotiations with foreign investors.

Statoil prioritized technology and innovation over short-term profit maximization.

Written by Martin Odendaal and Somine Dolo

Intergovernmental Forum on Mining, Minerals, Metals and Sustainable Development (IGF). (2018). *Norway: National capacity—Statoil and the Norwegian oil success story* (Case Study). IGF Guidance for Governments: Leveraging Local Content Decisions for Sustainable Development. Winnipeg: IISD.

IGF

FOR MORE INFORMATION CONTACT

Secretariat@IGFMining.org
1100-220 Laurier Avenue W.
Ottawa, Ontario
K1P 5Z9 Canada

IGFMining.org
@IGFMining @IGFMining

Secretariat hosted by: IISD

Secretariat funded by: Canada