THE RELEVANCE OF THE NORWEGIAN MODEL TO DEVELOPING COUNTRIES

By

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MANY ASPECTS OF THE NORWEGIAN EXPERIENCE CAN BE HELPFUL TO DEVELOPING COUNTRIES;

BUT ONLY IF CAREFULLY ADAPTED TO LOCAL CONDITIONS AND ASPIRATIONS
NORWAY BEFORE THE OIL ERA

NORWAYS SUCCESS MUST BE SEEN IN THE CONTEXT OF A UNIQUE STARTING POSITION INCLUDING:

- Well-developed system of Governance.
- Highly efficient civil service system.
- Well-established judicial system.
- Strong traditions in international law and human rights.
- Traditions for state participation in industrial development.
- Rich hydropower resources – LESS DEPENDENCE ON OIL
- Strong position in the Western world.
- Proximity to the European Gas Market.
- Broad and well-developed education system.
- Maritime traditions.
- Advanced technological environment.
- Well-developed scientific and industrial research institutions.
- ...etc.
RELEVANT FEATURES OF THE NORWEGIAN MODEL

A. SECTOR ORGANISATION AND RESULTS ATTAINED
   • CO-OPERATION BETWEEN LICENSEES AND AUTHORITIES
   • DIVERSITY AMONG LICENSEES
   • EFFICIENT PETROLEUM ADMINISTRATION
   • TRANSPARENCY
   • PLANNED LICENSING
   • IOR/EOR
   • GAS OPTIMISATION

B. MANAGING THE IMPACT OF PETROLEUM ACTIVITIES
   • SOCIAL AND ECONOMIC IMPACT
   • REVENUE UTILISATION

C. PETROLEUM POLICY
   • LEGISLATION
   • NATIONAL STEERING
   • NATIONAL PARTICIPATION
A.
SECTOR ORGANISATION AND RESULTS ATTAINED
Perhaps the most relevant feature to developing countries.
Government involvement as co-investor provided insight into the challenges faced by licensees.
Joint efforts opened the way to win-win solutions.
Major achievements in selected areas of mutual interest.
Open and competent dialogue is the key to successful co-operation.

Asymmetry in competence is a serious obstacle to positive co-operation. Needs improvement.
Clear and flexible frame conditions help promote co-operation.
Guidance by example needed.
Observing models of co-operation in action provides useful inspiration.
DIVERSITY IN LICENSEES

Diversity in licensees - national and international - helped meet the varied challenges of the offshore.

Licensees in a Group complement each other’s capabilities.

Diversity facilitates benchmarking of performance and improves efficiency.

Diversity enhances transparency and accountability.

Diversity eases government supervision.

Ensuring quality licensees must be a major objective.

Dominance of very few companies should be avoided.

Should seek competitive diversity.

Big risk of attracting speculative companies only.

Competitive rounds should be encouraged where feasible, i.a. to enhance transparency.
PETROLEUM ADMINISTRATION IN NORWAY

- Administrative separation
- Fairness
- Integrity
- Transparency

• IOC-1
• IOC-2
• IOC-n
PETROLEUM ADMINISTRATION IN DEVELOPING COUNTRIES

Policy
Ministry
Regulatory
Business

Policy
Ministry
National Oil Company
Covering all 3 Functions
Regulatory
Business

Policy
Ministry
National Oil Company
Covering 2 Functions
Regulatory
Business

MINISTRY

IOC - 1
IOC - 2
IOC - n

IOC - 1
IOC - 2
IOC - n

IOC - 1
IOC - 2
IOC - n

Petroteam a.s
Democracy demands transparency. Very few secrets in the sector.
Strict and clear rules for civil servants.
The role of the press enhances transparency.
Although choice of licensees is discretionary licensees can appeal the decisions of government.
Stakeholders are included in planning and hearing rounds.

Transparency needs improvement.
Decisions are often made by few people. Processes are vague.
Integrity is highly essential but often difficult to take for granted.
Hidden agendas exist in various quarters.
Transparency must be reflected in the process of governance.
**PLANNED LICENSING ROUNDS**

**NORWAY**

- Gradual and planned licensing rounds.
- Rounds are used to control the tempo of operations.
- Rounds promote transparency and predictability.
- Licensing is based on geometrical blocks.
- Discretionary allocation.
- Concessionary system based on JVAs.

**D.Cs**

- Often ad-hoc or open door.
- Planning is often considered unnecessary or a luxury.
- Tempo of operations is not of great concern.
- Size of the areas offered varies. Often very large license areas.
- Transparency is often lacking.
- Mostly based on PSAs.
IMPROVED OIL RECOVERY (IOR/EOR)

NORWAY

- Norway managed to increase recovery from 25% to 42%.
- Co-operation between Licensees and government is the key to success.
- Proactive encouragement have led to excellent research environment.
- Maintained the momentum despite low oil prices.

D.Cs

- Sub-optimal extraction is still a serious threat in a world thirsty for petroleum production.
- IOR costs are much less than in Norway. Upside potential should be higher.
- Badly need competence and experience to achieve IOR/EOR results.
- Need to establish positive co-operation with licensees.
GAS UTILISATION

NORWAY

- Gas forms 60% of petroleum resources in Norway.
- Gas burning is prohibited.
- Gas utilisation is a pre-requisite for developing oilfields with associated gas.
- Government had to facilitate optimal solutions including development of infrastructure.
- Competence in alternative utilisation of gas is essential.

D.Cs

- Different challenges but government involvement is often essential.
- Some countries have only gas.
- No international market for gas. Local utilisation requires government support.
- Governments must proactively facilitate gas utilisation.
- Financing gas projects will ultimately involve governments.
B. MANAGING THE IMPACT OF PETROLEUM OPERATIONS
MANAGING THE SOCIO-ECONOMIC IMPACT

NORWAY

• Managed the sector’s growth to mitigate harmful impact on economy and social life.
• Planning was the key to harmonised development.
• Monitoring the impact to avoid the Dutch disease.
• Proactive pursuit of lasting benefits to the society through planning.

D.Cs

• Desperately need economic growth.
• Managing a positive impact should be a high priority.
• The need for socio-economic harmonisation is often overlooked.
• Eagerness to grow underlines (not lessens) the need for planned integration.

CAREFUL ADAPTATION OF THE APPROACH IS ESSENTIAL

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MANAGING PETROLEUM REVENUE

NORWAY

• Norway's objective was to avoid heating the economy.
• The Petroleum Fund (now Pension Fund) was the means of mitigating harmful impact on the economy.
• Gradual growth was a consistent principle in petroleum policy to ensure growth in other sectors.

THE OBJECTIVE SHOULD BE
INTEGRATION INTO SOCIO-ECONOMIC PLANS FOR DEVELOPMENT

D.Cs

• DCs need the revenue now.
• The challenge is to achieve orderly growth.
• Emphasis should be on creating lasting values in harmony with other sectors of the economy and social life.
• Mitigation of leakage and wasteful spending should be a major objective.
C. PETROLEUM POLICY ASPECTS
LEGISLATION

NORWAY

- Gradual; when needed and implications fully understood.
- First law of one page in 1963.
- Supplemented since by royal decrees, regulations and guidelines
- First comprehensive law was enacted in 1985.
- First revision in was made in 1998.
- Objective judiciary system.

D.Cs

- Full clarity in the law is required from the start.
- Supplementary regulations often needed early, guidelines may wait.
- Should avoid revisions except when fully justified.
- Objective judiciary often lacking.

OBJECTIVE: PREDICTABILITY + FLEXIBILITY

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A prominent feature of the Norwegian approach.
Gradual approach to growth in the sector was backed by low dependence on oil imports.
System of governance made steering by government effective.
A competent civil service made steering fair, transparent and reliable.

Desirable but practically limited by the need for rapid income.
Competence is often a challenge.
Efficient institutions are hard to develop.
Steering by incentive is often more practical.
Nevertheless, a positive and balanced national steering is required.

OBJECTIVE:
TO INTEGRATE PETROLEUM INTO AN OVERALL PLAN
NATIONAL PARTICIPATION

NORWAY

• High level of commercial participation by government.
• Private national participation reasonably high.
• High local content.
• Rapid technology transfer was predictably possible.
• The research environment is highly qualified to contribute

D.Cs

• Commercial participation by Government is not always prudent.
• Private sector less developed to participate efficiently.
• Local content is often limited but should be optimised.
• Technology transfer likely to take time. Can be enhanced.
• Education and research institutes need improvement.

OBJECTIVE:
USE PETROLEUM TO IMPROVE LOCAL COMPETENCE
CONCLUSION

• Developing countries can benefit from the Norwegian experience.
• Differences in objectives and realities require careful adaptation to the local scene.
• Understanding the global scene is an important part of the adaptation.