

## Managing expectations – key to the Norwegian success story

*By the Oil for Development Secretariat*

It is said that Emperor Augustus deplored rashness, and that his motto was *Festina Lente* – “make haste slowly”. The oxymoron aptly encapsulates how Norway developed its petroleum industry. It is a story that spans 50 years and which propelled the Scandinavian country from being a laggard among western economies, to having the fourth-highest GDP per capita globally in 2014. Today, the petroleum industry contributes 20 per cent of the Norwegian State’s revenues and represents the country’s largest industry in terms of value-creation and exports.

Building the growth engine of the Norwegian economy was a slow and gradual process, in which lessons learned from each step were incorporated into the next. The premise was that the petroleum resources belonged to the Norwegian people and that the State would develop it sustainably on their behalf. The tax system were designed so that the bulk of the resource rents generated by the industry would accrue to the Norwegian state, and in turn fund the Norwegian welfare system for generations.

Few people had imagined that the Norwegian continental shelf concealed a wealth of oil and gas. Thus, public expectations were low and the Government was under no pressure when it decided to open up the Norwegian continental shelf for exploration. Turning down a request from Phillips Petroleum in 1962, the Norwegian authorities declined to sign over the entire shelf to a single company. Instead, the country’s first licensing round was announced in 1965. 22 production licenses were awarded, covering 78 blocks together accounting for 15 percent of the Norwegian continental shelf.

It would take more than 200 exploration wells to be drilled before the Ekofisk field was discovered in 1969, heralding the dawn of the Norwegian oil era. Production started in 1971, and Ekofisk is still producing today. Only a limited number of blocks were announced for each subsequent licensing rounds – a prudent policy maintained to this day.

Initially, Norway chose a model where foreign companies carried out the bulk of the petroleum activities. The reason for this was that Norway had limited domestic expertise when it came to exploration and development. By forging links between research institutions, oil companies and related service industries, Norway succeeded in developing knowledge clusters. These clusters have played a pivotal role in the development of a sustainable petroleum industry. Plurality has proven the most effective basis for a competitive domestic oil industry.

National participation grew over time. Statoil was established in 1972, three years after the Ekofisk discovery, with the State as sole owner. A principle was also established to give the State a 50 per cent ownership interest in each production license (a principle that was rendered more flexible in the 1990s). It was only in 1981 that Statoil acquired, as the first Norwegian company, operator rights on the Gullfaks field – 16 years after the first licensing round in 1965.

Developing regulatory framework took time given that the country was starting from scratch, but when petroleum production started in 1971 the Government established “10 Commandments” for the sector, of which the objective was to establish sustainable management of the resources for the

benefit of present and future generations. Taking time to build the required institutional capacity, Norway's first Petroleum Law was enacted in 1985, some 15 years after the Ekofisk discovery.

Regarding revenue management, Norway experienced two depressions rooted in too optimistic income expectations during the first 25 years of oil production. To ensure a long-term perspective in the management of the petroleum revenues, the government established a sovereign wealth fund in 1990. The first capital transfer to the fund took place in 1996. A fiscal rule was established in 2001, stipulating that the government spending of its oil revenues should be limited to the expected real return on the fund, estimated at 4 per cent annually.

Fifty years on, Norway is Western Europe's biggest oil exporter. Approximately 45 percent of the estimated recoverable resources on the Norwegian shelf have been produced and the country announced its 23rd licensing round earlier this year. The principle of gradual licensing is still being adhered to, as completely new acreage for exploration is open for the first time for over 20 years while other areas are saved for later rounds. The petroleum activities have so far contributed more than NOK 11 000 billion to Norway's GDP, measured in 2013 NOK. The sovereign wealth fund is the world's largest, with a market value of NOK 7 200 billion at the end of the third quarter 2015.

As countries prepare to open up its own waters for petroleum exploration and development, what lessons could be of relevance from the Norwegian experience?

Each country has its own distinct historical, political and economic characteristics that must be taken into account when making policy decisions about the petroleum sector. While Norway can share its experience, its journey cannot be made into a blueprint for other countries to implement. This is also the underlying philosophy of the Norwegian development programme "Oil for Development" (OfD).

One example is the fact that Norway was largely self-sufficient in hydropower when it first discovered oil and gas in the North Sea. But some of the lessons learned by Norway could serve as helpful guidelines to the authorities in OfD's partner countries. These can be summed up in four key points:

- Acceptance that building a sustainable and well-functioning petroleum industry is a complex process that requires time. A long-term perspective and investment in early stage preparations in building institutions and capacity are fundamental for success.
- Gradual exploration licensing as a tool for maximizing control and national steering of the resources over time is crucial, enabling learning and opportunities for adjustments.
- A sound legal, fiscal and regulatory framework characterised by strong and competent institutions, and a high level of transparency, forms the basis for sustainability.
- Managing expectations is vital. Keeping an open and informed national dialogue among all stakeholders – the authorities, private sector, civil society and media - will help establish trust and foster cooperation in this regard.