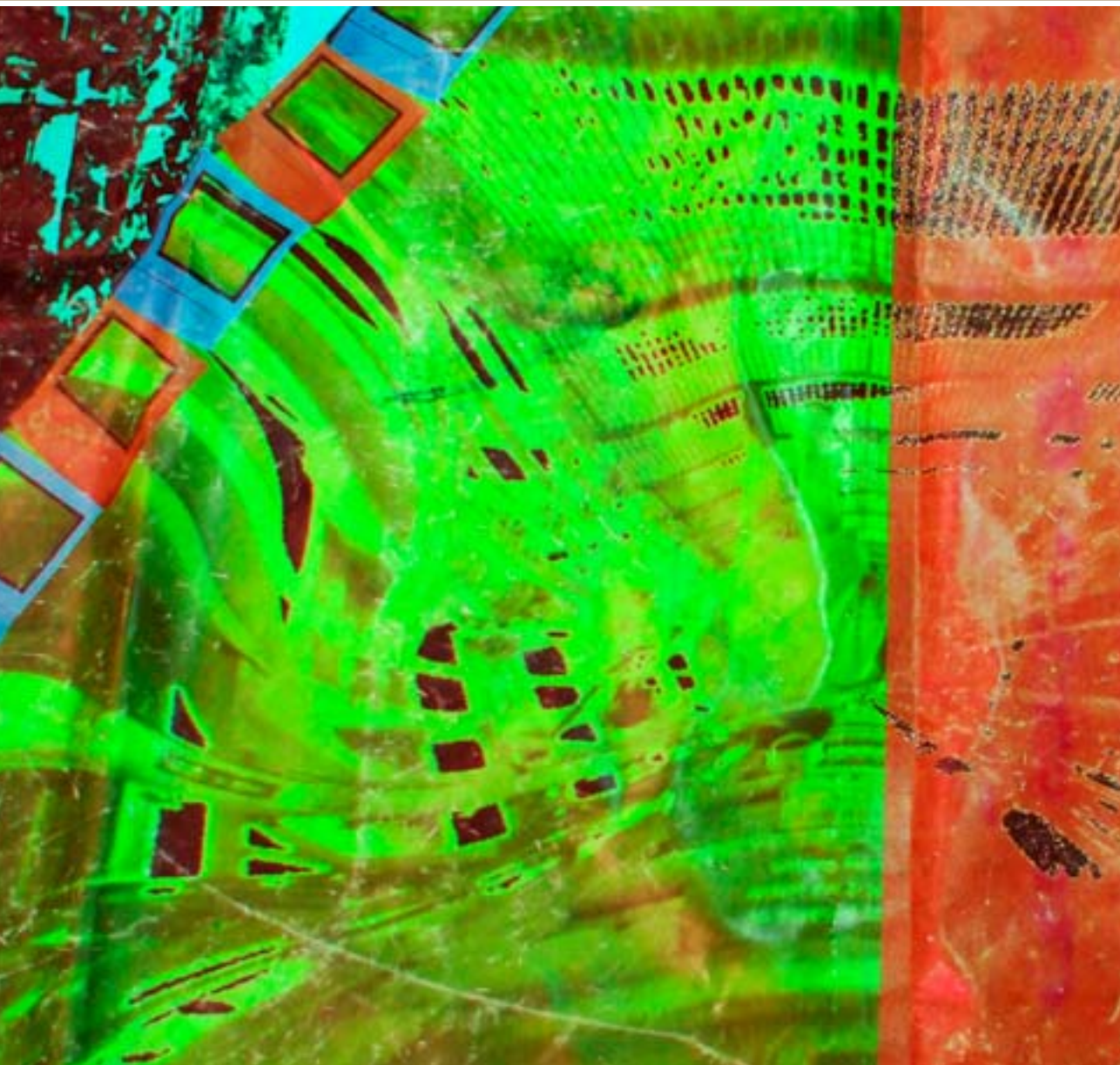


2 Norwegian resource management



The interest in exploring for oil on the Norwegian continental shelf began in the early 1960s. At that time there were no Norwegian oil companies, and very few Norwegian institutions, public or private, had any knowledge of petroleum-related activities. There was even a question as to whether the Norwegian continental shelf really held significant petroleum resources. Right from the start, national administration and control over the petroleum activities on the Norwegian continental shelf have been fundamental requirements. The challenge facing Norway in developing its petroleum activities was to establish a system of managing the petroleum resources – a system that would maximise the value for Norway as a whole.

In the beginning, the Norwegian government selected a model in which foreign companies carried out the petroleum activities on the

Norwegian continental shelf. Over time, the Norwegian involvement was strengthened through the participation of Norsk Hydro, and by the creation of a wholly owned state oil company, Statoil, in 1972. A private Norwegian company, Saga Petroleum, was also established, but was later acquired by Norsk Hydro. In 2007, Norsk Hydro's oil and gas activities merged with Statoil, and the new company was named StatoilHydro ASA. The cooperation and competition between the various companies on the Norwegian continental shelf have been crucial, as the companies have all possessed different technical, organisational and commercial expertise. This policy has contributed to ensuring that Norway today has its own oil companies and a competitive supplier industry, and that the nation has secured substantial revenues from the sector.

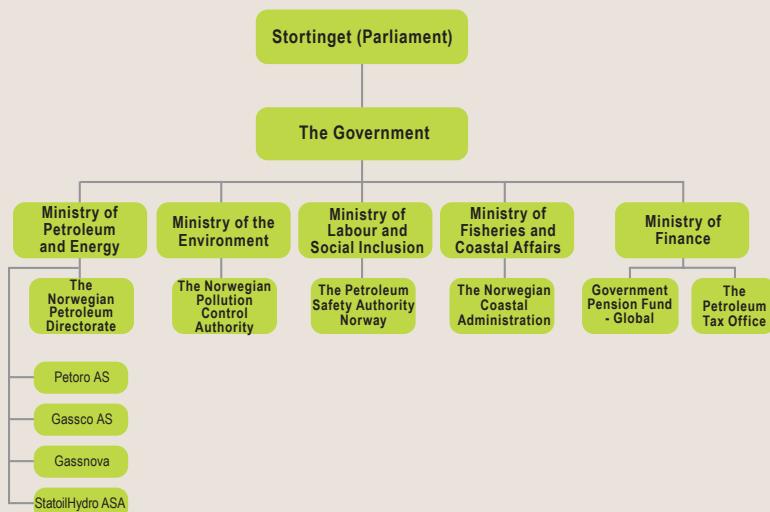


Figure 2.1 National organisation of the petroleum sector
(Source: Norwegian fiscal budget)

The current resource management model

In order for oil companies to make rational investment decisions, the framework conditions must be predictable and transparent. The organisation of the activities and the division of roles and responsibilities shall ensure that important social considerations are safeguarded and that the value created from the activities benefits society as a whole. At the same time, consideration for the external environment, health, working environment and safety plays an important role.¹

Norwegian and international oil companies are responsible for the actual petroleum activities on the Norwegian continental shelf. Competition between oil companies yields the best result when it comes to maximising the value of the petroleum resources. At the same time, it is important that the authorities can understand and evaluate the decisions made by the companies. Therefore, Norway has established a system whereby oil companies supply the ideas and carry out the technical work required to recover the resources, but their activities also require approval by the authorities. The approval of the authorities is required in all stages of the petroleum activities, in connection with exploration drilling², plans for development and operation³ and decommissioning plans⁴ for fields.

For the oil companies to maximise the values on the Norwegian continental shelf, a framework must be in place which provides the petroleum industry with incentives to fulfil the state's objectives while at the same time meeting their own goals, which is to maximise their profits. Through the petroleum taxation system and the State's Direct Financial

Interest (SDFI), the state receives a substantial portion of the revenues from the petroleum activities.⁵ At the same time, however, tax deductions are granted for the costs associated with petroleum activities. In such a tax system, the Norwegian State functions as a passive owner in a production licence on the Norwegian continental shelf. This system implies that, if the oil companies do not make money, neither will the Norwegian State. In this manner, all players in the Norwegian petroleum sector have a common interest in ensuring that production of the Norwegian petroleum resources creates the greatest possible values.

Cooperation and competition

While competition is desirable, cooperation between the players in the petroleum industry is also beneficial. Therefore, the main rule is that the authorities award production licences to a group of companies instead of one company alone, normally on the basis of applications from oil companies in connection with licensing rounds.⁶ The most important award criteria include understanding of the geology, technical expertise, financial strength and the experience the authorities have had with the specific oil company. Based on the applications, the Ministry of Petroleum and Energy establishes a licensee group. In this group, the oil companies exchange ideas and experience, and share the costs and revenues associated with the production licence. The companies compete, but must also cooperate to maximise the value in the production licence they have been awarded. Under this system, expertise and experience are gathered from a number of companies from all over the world. The licensee group also functions as an internal control system within the production

¹ Environmental considerations in the petroleum activities are addressed in Chapter 9.

² Ref. Chapter 4.

³ Chapter 5 addresses development and operation, while gas management is discussed in Chapter 6.

⁴ More on decommissioning after production is concluded in Chapter 7.

⁵ Ref. Chapter 3.

⁶ A more detailed discussion of exploration policy can be found in Chapter 4.

licence, where each licensee is responsible for monitoring the work of the operator.

The petroleum sector is driven by technological innovation. Maximising the values on the Norwegian continental shelf requires that oil companies constantly apply the best available technology, and that they carry out the necessary research and development. Therefore, the Norwegian authorities have established an environment that promotes technological development. Today there is close collaboration between oil companies, research institutes, the supply industry and the authorities when it comes to technology and research.⁷

- The Ministry of Petroleum and Energy
– responsible for resource management and for the sector as a whole
- The Ministry of Labour and Social Inclusion
– responsible for health, the working environment and safety
- The Ministry of Finance
– responsible for state revenues
- The Ministry of Fisheries and Coastal Affairs
– responsible for oil spill contingency measures
- The Ministry of the Environment
– responsible for the external environment.

National organisation of the petroleum sector

The Storting

The Storting (Norwegian parliament), establishes the framework for the Norwegian petroleum activities. The methods used include passing legislation and adopting propositions, as well as discussing and responding to white papers concerning the petroleum activities. The opening of new areas for petroleum activities, major development projects or matters of great public importance must be discussed by the Storting. The Storting also supervises the Government and the public administration.

The Government

The government holds the executive power over petroleum policy and is responsible vis-à-vis the Storting for this policy. In applying the policy, the government is supported by the ministries and subordinate directorates and agencies. The responsibility for executing the various roles within the petroleum policy is shared as follows:

⁷ See Chapter 8.

More on the national organisation of the petroleum sector

THE MINISTRY OF PETROLEUM AND ENERGY

The Ministry of Petroleum and Energy holds the overall responsibility for management of petroleum resources on the Norwegian continental shelf. This includes ensuring that the petroleum activities are carried out in accordance with the guidelines given by the Storting and the government. In addition, the Ministry has a particular responsibility for supervising the state-owned corporations, Petoro AS and Gassco AS, as well as the oil company in which the state holds a majority interest, StatoilHydro ASA.

The Norwegian Petroleum Directorate

The Norwegian Petroleum Directorate (NPD) is administratively subordinate to the Ministry of Petroleum and Energy. The NPD plays a key role in petroleum resource management, and is an advisory body for the Ministry of Petroleum and Energy. The NPD exercises authority in connection with exploration for and production of petroleum deposits on the Norwegian continental shelf, including statutory powers and to make decisions based on the rules regulations governing the petroleum activities.

Petoro AS

Petoro AS is a state-owned corporation which is responsible for the State's Direct Financial Interest (SDFI) on behalf of the state.

Gassco AS

Gassco AS is a state-owned company responsible for the transport of natural gas from the Norwegian continental shelf. The company is the operator of Gassled, although it has no ownership interest in the company. Gassco AS handles this operatorship in a manner that is neutral for all owners and users.

Gassnova

Gassnova is an administrative agency with the task of promoting and supporting innovation and development of environmentally friendly gas power technology.

StatoilHydro ASA

In 2007, Norsk Hydro's oil and gas activities merged with Statoil, and the new company was named StatoilHydro ASA. StatoilHydro ASA is listed on the Oslo and New York stock exchanges. As of 15 March 2009, the state owned 67 per cent of the company's shares.

More on the national organisation of the petroleum sector

THE MINISTRY OF LABOUR AND SOCIAL INCLUSION

The Ministry of Labour and Social Inclusion holds the overall responsibility for the working environment and for safety and emergency preparedness measures in relation to the petroleum sector.

The Petroleum Safety Authority Norway

The Petroleum Safety Authority Norway has regulatory responsibility for safety, contingency measures and the work environment in the petroleum sector.

The Petroleum Safety Authority Norway is responsible for technical and operational safety, including emergency preparedness and the working environment in the petroleum sector.

THE MINISTRY OF FINANCE

The Ministry of Finance holds the overall responsibility for ensuring that the state collects taxes, fees and other revenues from the petroleum sector.

The Petroleum Tax Office

The Petroleum Tax Office is part of the Norwegian Tax Administration, which is subordinate to the Ministry of Finance. The main function of the Petroleum Tax Office is to ensure correct assessment and collection of the taxes and fees that have been determined by the political authorities.

The Government Pension Fund – Global

The Ministry of Finance is responsible for managing the Government Pension Fund - Global. Responsibility for operational administration has been delegated to Norges Bank.

THE MINISTRY OF FISHERIES AND COASTAL AFFAIRS

The Ministry of Fisheries and Coastal Affairs is responsible for maintaining adequate contingency measures against acute pollution in Norwegian waters.

The Norwegian Coastal Administration

The Coastal Administration is responsible for national oil spill contingency measures.

THE MINISTRY OF THE ENVIRONMENT

The Ministry of the Environment holds the overall responsibility for environmental protection and management of the Norwegian external environment.

The Norwegian Pollution Control Authority

The responsibilities of the Norwegian Pollution Control Authority include enforcing the Pollution Control Act. Another key task is to provide the Ministry of the Environment with advice, guidelines and technical documentation.

The Senior Management Forum

The Senior Management Forum (Topplederforum) was established in the autumn of 2000, and is chaired by the Minister of Petroleum and Energy. The Senior Management Forum is an arena where the industry and the authorities can discuss relevant topics and key challenges for the oil and gas sector; however, no formal decisions on oil and gas policy are made in the Forum. The Senior Management Forum is organised and financed by the Ministry of Petroleum and Energy. Members of the Forum include senior managers from oil companies, the supply industry, employees' and employers' organisations, research institutes and the authorities.