



Great regime –
but time for a revision,
says **architect**



Weak points in the “Norwegian model” for governing oil operations have become more visible as the NCS matures, says Farouk Al-Kasim. A key player when this solution was first created, he believes the companies must now be rewarded for taking higher risks.

Bjørn Rasen
Emile Ashley (photos)

The person who turns up to be photographed at the Norwegian Petroleum Museum in Stavanger is one of the grand old men of the Norwegian oil industry, and a former NPD director of resource management.

Mr Al-Kasim has been more anonymous in recent years, until his story was presented in the *Financial Times* this August. He is actually a well-concealed secret at the museum, too.

No place has been found in its otherwise extensive exhibits for the man who, at the age of 32, wrote the first draft of the definitive 1972 White Paper which established the Norwegian model.

But the museum authorities, when questioned, say that a historical interview has been conducted with Mr Al-Kasim to document his contribution to the business.

The 37-year-old White Paper formed the basis for Norway's oil regime, and enshrined the principle of separating commercial and administrative functions.

It also laid the foundations for the roles to be played in the industry by two new institutions – state oil company Statoil and the NPD.

In Mr Al-Kasim's view, the model created a basis for cooperation between companies and government. “Collaboration has been my doctrine throughout. It's my fundamental conviction.”

Functioned

Fit-looking and fully employed as a consultant, the 75-year-old believes the regime functioned extremely well when the nation was heading for peak production – ably assisted by several large oil and gas discoveries.

“It's impressive in a number of respects,” Mr Al-Kasim reflects. “But the model does have its shortcomings, and these are becoming more obvious as the NCS matures.

“The problem is that it doesn't give licensees sufficient incentive to produce small, difficult or high-risk fields. There'll be more of these in future, and the

financial return they offer might not be enough for the companies.”

He also notes that the government has ceased to take stakes of more than 50 per cent in all production licences – and thereby a corresponding share of risk and initial investment costs.

The rules of the game, the refinements in the division of offshore roles, and financial and fiscal incentives are based on “elephants” like Ekofisk, Statfjord and Troll, Mr Al-Kasim says.

“Where production licences are concerned, the model functioned well in the elephant era. We've also found mechanisms for avoiding its weaknesses – the state's need to be involved as an investor in order to boost its share of revenues to 80 per cent.”

Higher risk must be rewarded, he maintains. And practical solutions have to be found to bring up the remaining resources which are technically and financially recoverable.

“I've come to the conclusion that Norway must modify its regime if it's going to recover the remaining resource potential,” Mr Al-Kasim explains.

“That's not being bold. The final phase is the most demanding everywhere in the world where oil exists. Typically, the big companies aren't interested in small fields because their cost is seen as excessive in relation to revenues.

“Profits must be sufficient to bear the expenditure. The Norwegian model isn't necessarily the best solution for this phase.”

In his view, the question is whether it would be better to patch up old trousers or go to the tailor for a new pair – particularly if you've got thinner.

“Our trousers today have elephant dimensions. They'd look laughable on a rabbit. You could probably modify them to fit, but it might be better to get a new, properly tailored pair.”

He sees the challenge posed by the fact that Norway still has a number of elephants on stream, which could force the government to apply several different legal, contractual and tax models.

Norway surprised itself and the world

over the manner in which its resources have been administered, Mr Al-Kasim observes, and points out that the country was initially afraid of the oil.

That attitude seems in many respects to have come full circle – to judge by today's Norwegian petroleum debate, in which oil has increasingly become a dirty word.

Mr Al-Kasim feels that the country's original doubts, which questioned whether offshore resources were a benefit or a threat, proved beneficial.

“If Norway had done the same as most other countries, and plunged into the petroleum business at the mercy of powerful companies, it would have been hit by the oil curse. An immediate shock to the economy from the new industry was avoided.”

Contribution

All this gave the young oil nation something to build on, and has since made the most important contribution to constructing the Norwegian welfare state.

Mr Al-Kasim highlights a number of Norwegian characteristics which have contributed to the national success – or, in his own words, “a miracle”.

The nation was self-confident after the Second World War, he notes, with a prevailing “effervescent nationalism, can-do attitude and pride” combined with “sound common sense”.

In Mr Al-Kasim's view, a political consensus prevailed that the country had to stick together and at least prevent outsiders from detecting disagreement during an election campaign.

“I tried to persuade the industry ministry to prepare for an oil age,” he recalls. “The response was relaxed, along the lines of ‘that was interesting – we'll do it when the time comes’.

“Having experienced relations between government and oil companies in my homeland of Iraq, my greatest concern was that Norway would lose control to a strong and powerful industry. I've nothing against oil companies, but the nation must be in charge.”

That perspective developed from close observation of the way an interna-

After Farouk Al-Kasim left the NPD in 1990, he has played what he calls an observer's role. But he has not been short of work as a consultant. He wrote the draft of White Paper 113 in 1972, which laid the basis for such pillars of the Norwegian model as Statoil and the NPD. He subsequently penned a draft Petroleum Act for oil giant Iraq, 40 years after leaving his homeland.



“But both Labour and non-socialist governments stuck to the same policy. That’s an unusual demonstration of national strength over such a long period.”

tional consortium of several oil majors – including Shell, Mobil and Exxon – had exploited Iraq.

“When I started work in 1957, a rich and arrogant group of companies exercised sole rights across the entire country in return for a royalty of about five per cent,” he recalls.

“I reflected over what was wrong with the relationship between the government and the companies, The state can’t do everything itself, but the companies were used to getting their own way.

“They didn’t believe the ‘opposition’ could put pressure on them. When the government dared to revoke the concession, the companies recognised where the power lay. It was laughable.”

He decided that a balance had to be struck which allowed companies and government to work together. They could by all means have differing views, but must promise each other to respect the rules of the game. So the key issue is what those rules should be.

After getting a job with Norway’s industry ministry, Mr Al-Kasim identified a number of principles for separating commercial and administrative functions. The aim was to create a basis for collaboration.

These principles – the foundation for the Norwegian model – were put on paper by the young Iraqi as a draft for the White Paper. “The final report was naturally an outcome of the ministry’s further work, and not something I did alone,” he adds.

He made it clear in this document that the government must own the resources and secure the bulk of the profit, while the oil companies were to obtain a reasonable return.

They must earn enough to serve the nation in a proper way. If their earnings are too low, the companies would not give of their best.

Dimensions

Mr Al-Kasim’s perspective remains unaltered. Much has changed on the NCS, but he says the same three dimensions are still fundamental – controlling the pace of production, preventing the economy from running wild, and accepting that earnings cannot stay stable all the time.

Where the first dimension is concerned, he notes that national control would have been lost if Norway had

tried to move too fast. A moderate pace meant that the players got to know each other better, learnt along the way and grasped their economic impact.

“Former industry minister Finn Lied said that our policy was to make haste slowly,” observes Mr Al-Kasim. “Commercial interests were frustrated because things didn’t move fast enough.

“They undoubtedly saw a fantastic opportunity to expand and enrich themselves. But both Labour and non-socialist governments stuck to the same policy. That’s an unusual demonstration of national strength over such a long period.”

Looking at the second dimension, he maintains that Norway has avoided the “oil curse” through its cautious policy. The economy was protected from a sudden shock.

Opportunity

At the same time, the first 12 years of the offshore activity provided Norwegian industry with an opportunity to get involved and to learn from the foreign players.

Not only was the destruction of other industries avoided, but the goal of 70 per cent domestic deliveries to the oil sector could be achieved.

“We enhanced the social benefits of the oil and created a sustainable industry,” Mr Al-Kasim says. “Without these moves, Norway wouldn’t later have secured huge revenues from exporting technology and oil services.”

On the third dimension, the young Iraqi quickly landed a job in the Norwegian civil service. His first job in 1968 was to evaluate Cod, and he concluded that this North Sea discovery “will ... have a unique significance for future oil activities in Norway”.

But he warned his new colleagues that optimum recovery of oil resources would demand a proactive interplay between government and licensees. Revenue from the new industry would fluctuate.

And the fact that the Norwegian government took a big slice of the risk by providing more than half the capital spent on many developments up to the 1990s was the key to success with improved recovery on the NCS. “The companies couldn’t claim that the authorities weren’t shouldering their share of the burden.”

It is within this framework that he

believes “we” have succeeded in securing one of the largest oil fields on the NCS – Troll – for the nation.

“The companies were basically ready to give up the oil in what is otherwise a huge gas field,” Mr Al-Kasim notes. “The NPD opposed the big players, who reversed their position.

“We had to go to the petroleum ministry and request an additional NOK 5 million to fund a study of Troll. Secretary-general Oluf Møller accepted that.”

The rest is history, and Mr Al-Kasim believes that Troll represents the greatest monument to the NPD’s work.

But the picture has changed as the NCS matures. The companies bear a larger share of investment in a number of licences, which is why Mr Al-Kasim wants a bigger reward for higher risk.

“Norway’s oil age began well,” he says. “We’ve made a number of adjustments over time, of course. But things doesn’t stand still. Both the resource base and the global energy picture have changed.

“So have the environmental consequences of the oil industry, and popular attitudes to this business. All that presents us with challenges.

“The key question is how we should adapt without destroying what remains from the elephant period - the big discoveries.” ❄

Farouk Abdul Aziz Al-Kasim left the Iraqi oil industry, together with his Norwegian wife Solveig, in 1968 and – after a spell in London – landed a job with Norway’s Ministry of Industry.

He was appointed director of resource management at the NPD when it was established in 1972 and remained in that post for 18 years.

His honours include the Oilman of the Year award from the Society of Petroleum Engineers (SPE) in 1992 and the Distinguished Service Award from the ONS oil show in 2006.

He is the author of *Managing Petroleum Resources – the Norwegian Model in a Broad Perspective*, which appeared in 2006.

Read more of his story on the Financial Times website at <http://www.ft.com/cms/s/2/99680a04-92a0-11de-b63b-00144feabdc0.html>

More about the NPD’s role in managing the Norwegian oil model can be found at www.npd.no/en/About-us/.