



Norwegian Ministry  
of Petroleum and Energy

# Norway as a petroleum host nation – our experience

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# Petroleum policy

- The property rights to petroleum resources on the Continental Shelf are vested in the State
- The petroleum resources to be managed in a long term perspective to the benefit of society as a whole – **good resource management**
- Maximize value creation
- Norway as a significant petroleum producer and exporter: In the forefront regarding health, safety and the environment
- **Development of national expertise**
- **Effective Government take**
  - Petroleum tax system and State participation



# Norwegian resource management system

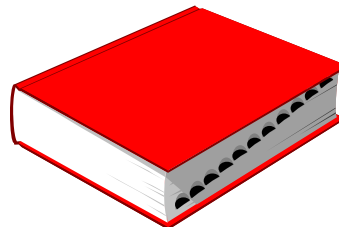
## Key principles

- **National control:** All important activities subject to approvals/consents/permits by competent authorities
- Predictability, transparency and stability of investment conditions
- Clarity of the different roles of the State
- Striking the right balance between attracting international E&P companies and building domestic industry
- International participation in upstream petroleum activities since 1965
- The petroleum administration: Clear roles, prudent, timely and transparent decisions, **dialogue with oil companies**
- Copies of all information from the petroleum activities shall be submitted to competent authorities – free of charge

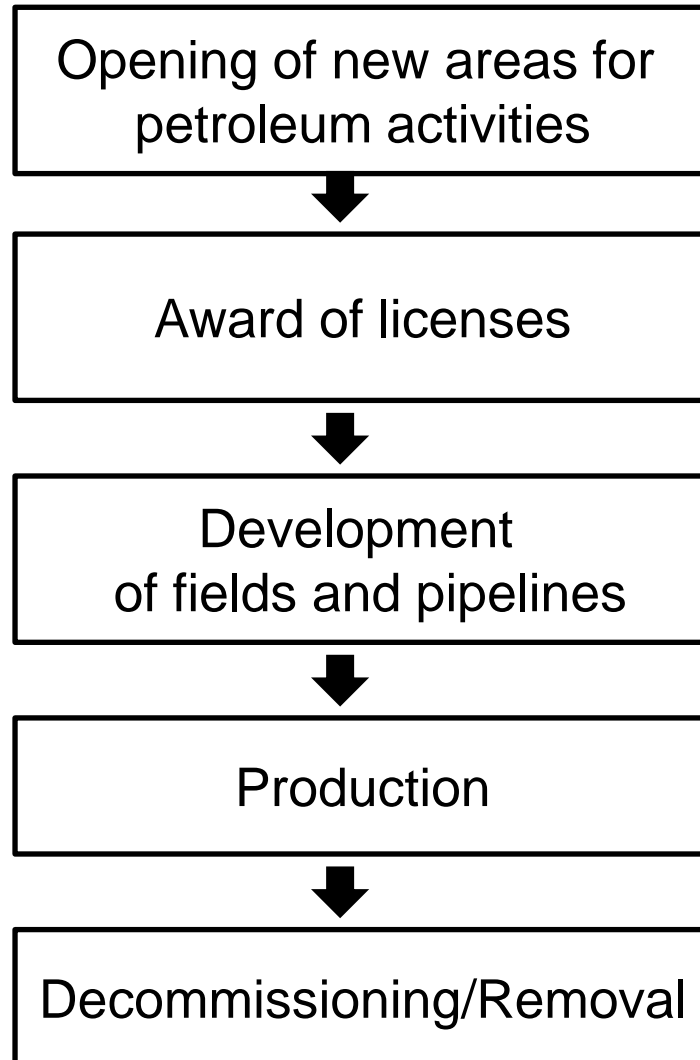


# Petroleum legislation

- **Petroleum legislation: Simple, clear, stable – and flexible**
- **All issues of general application are stipulated by law** – reduces the need for negotiations (oil companies are always more resourceful than the national government – negotiations are often to the detriment of the State)
- **Individual conditions are stipulated in licenses and permits**
- **The Act of 29 November 1996 No. 72 pertaining to petroleum activities (Petroleum Act)**
- **Regulations to the Petroleum Act, laid down by Royal Decree 27 June 1997 (Petroleum Regulations)**

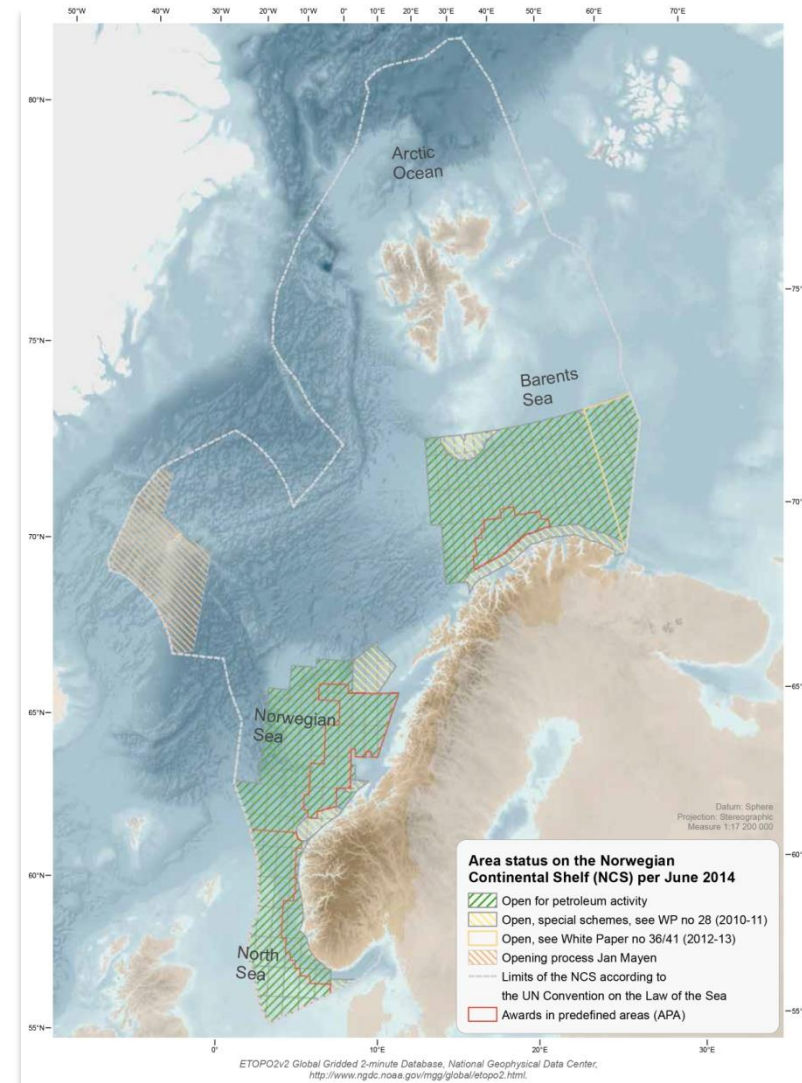
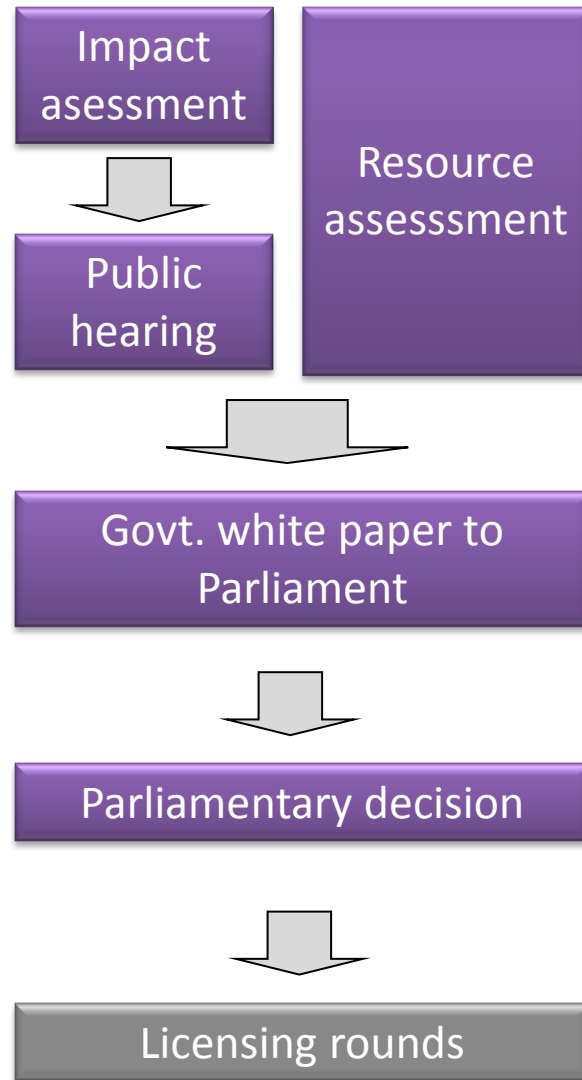


# Ministry of Petroleum and Energy: Our main responsibilities





# The opening process – strategic impact assessment



# Norway: A licensing system

## **Petroleum Act Section 1-3:**

***None other than the State may carry out petroleum activities without the licenses, approvals and consents required pursuant to this Act***

- **Prospecting license – non-exclusive**
- **Production license – exclusive**
- **Approval of Plan for development and operation**
- **License to construct and operate pipelines**
- **Decommissioning plan**



# Licensing policy – Compete & Cooperate

- **Award of production licenses (concessions) to qualified oil companies in dedicated licensing rounds – under full competition**
- **Individual applications or group applications**
- **Discretionary system: Ministry of Petroleum and Energy announces licensing rounds, considers applications, negotiates with applicants, proposes final award to Government, prepares licensing documents**
- **Production licences normally awarded to groups of companies:**
  - **Plurality of geological and technical ideas**
  - **Checks and balances**
  - **Capital, competence, capacity**
  - **Sharing of cost and responsibility**





## Licencing policy – Compete & Cooperate

- Award of production licences based on **objective criteria** – stipulated by law:
  - Geological understanding
  - Technical expertise
  - Financial strength
  - Experience with the oil company
- Awards are made on non-discriminatory basis – Statoil competes for production licenses like all other applicants
- State participation through SDFI (State Direct Financial Interest)



# Norway: Characteristics of the licensing system

- **Production license:** Exclusive right to explore for and produce oil and gas. Licensee becomes owner of petroleum produced
- **Ministry decides:**
  - Composition of license group
  - Operator
  - Work obligation (award of license is free of charge – work obligation is the payment)
  - State participation
- Always more than one oil company per production license – normally 2-4 in each group
- Formal award by King in Council
- Condition for award: Licensees to form a joint venture – all agreements based on **models – non-negotiable**



# Development of a petroleum deposit

- **Before development of a petroleum deposit: Operator to submit a Plan for development and operation (PDO) to Ministry for approval**
- **PDO consists of a development plan and an impact assessment – public consultation for 3 months**
- **Contents of PDO: Economic, resource, technical, safety related and commercial aspects of the development**
- **Impact assessment carried out on the basis of relevant EU directives**



# Project specific impact assessment

## Outline

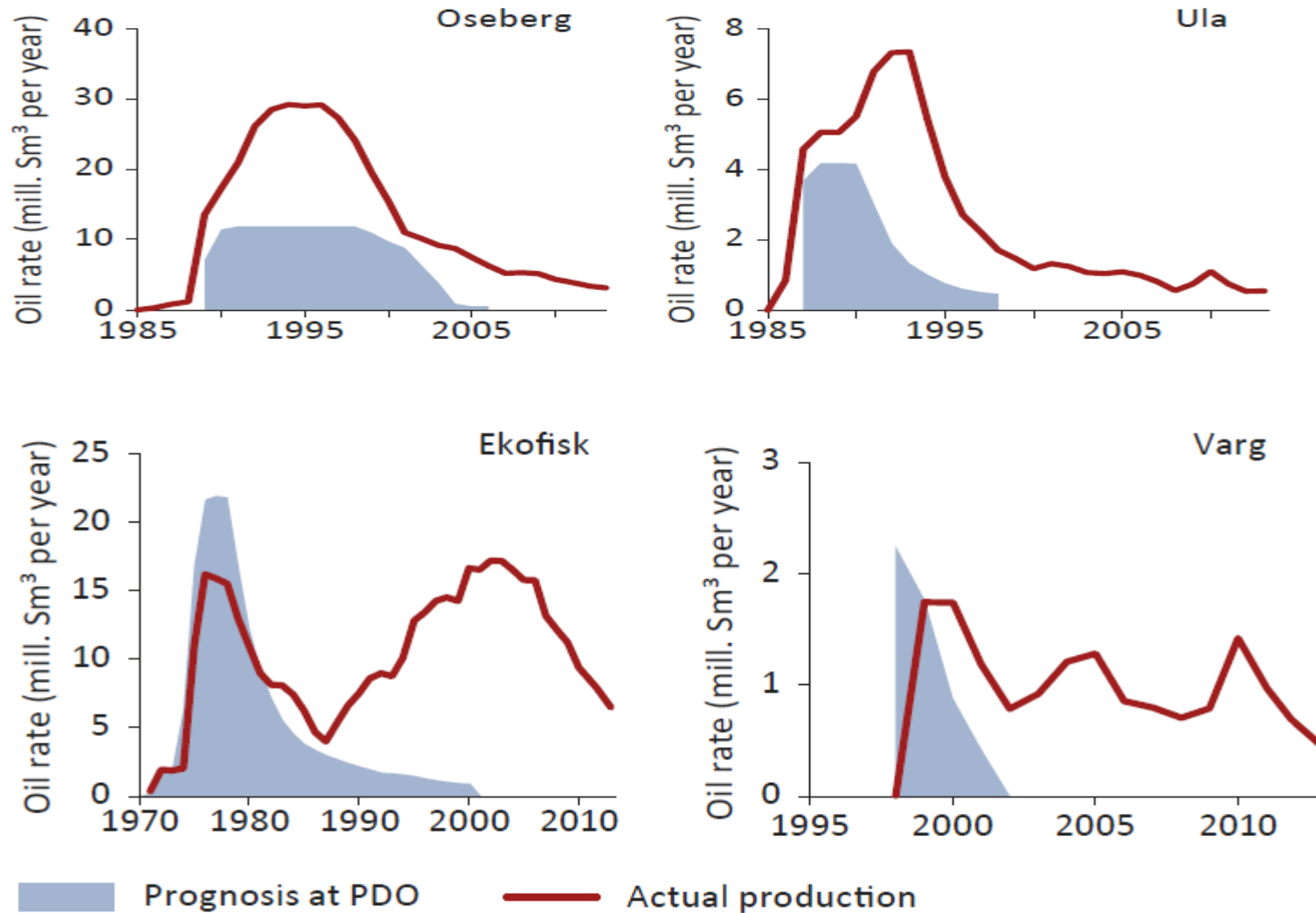
- Environmental consequences and remedial measures
  - Consequences for the fisheries
  - Emissions to air
  - Emissions to sea
  - Energy supply
  - Oil spill and emergency preparedness
  - Socio-economic consequences
- **Plan for development and operation (PDO)  
(Licensees)**
  - **Plan for installation and operation (PIO)  
(Licensees)**
  - **Plan for decommissioning  
(Licensees)**

# Operation

- **Licensees are obliged by law to produce as much as possible of the petroleum in place in each petroleum deposit**
- **Production to take place in accordance with prudent technical and sound economic principles**
- **Waste of petroleum or reservoir energy shall be avoided**
- **MPE approves production rates upon approval of the PDO**
- **Production permits:**
  - **Oil: Annually**
  - **Gas: Longer periods – concrete consideration**
- **Regulation of production rates – Royal Decree**



# Reserve growth post production start





# Flaring and venting of natural gas

- **Since the early '70-ties:**
- **Flaring and venting of gas in excess of the quantities needed for normal operational safety is not be allowed unless approved by the Ministry**
- **No PDO is approved unless a solution for the gas is found:**
  - **Reinjection for later reproduction (blow-down of the field)**
  - **Reinjection for enhanced oil recovery**
  - **Pipeline transportation to a market**
- **Flaring and venting of gas is**
  - **Burning of money (bad resource management)**
  - **Very polluting**



# Unitisation

- A field extending across the border of two production licences/another State – different licensees
- Agreement to exploit the petroleum deposit as one unit – *unitisation*
- **Purpose: Good resource management**
- The deposit to be divided between the relevant licenses – geology decides
- Unisation agreement – subject to MPE approval
- No agreement on unitisation – MPE stipulates conditions – **including apportionment of the deposit**
- No approval of PDO/PIO until a unitisation agreement is signed



## License to install and operate pipelines etc.

- A specific license is required to install and operate facilities such as pipelines etc. – granted by the MPE
- The license is granted upon approval of a Plan for installation and operation (PIO) of a facility (**pipeline**, onshore processing plant, cable for electricity...)
- Granting of this license may be subject to conditions
- The PIO comprises:
  - Plan for installation and operation
  - Impact assessment



# Norway: Industry Development

- based on our capabilities and competitive strengths



## Starting point 1965:

- Industrialised society
- Relatively high level of education in population
  - Experience in shipping and hydro power
  - Trust in public institutions
- Political consensus and stability



# Local content – a tool for development

- **Governments are looking for more than just revenues**
  - **Employment**
  - **Local business opportunities**
  - **Cheaper energy inputs for local economy**
  - **Local infrastructure resulting from petroleum activities**
  - **Training and education**
  - **Diversification – transfer of skills to non-petroleum sector**
- **If successful, local content means:**
  - **Job opportunities**
  - **Capacity building**
  - **Development of local infrastructure**
  - **More value creation**



# Local content

- **What will it take to reach a satisfactory level of local content?**
  - **A clear and realistic local content policy**
  - **Clear local content requirements – preferably set by law – avoid negotiations with individual companies**
  - **Equal local content requirements in relation to *all* international companies**
  - **Equal and transparent application of the local content requirements**
  - **High Government commitment – preferably political consensus**
  - **Supportive international oil companies**
  - **High focus on developing – and further develop existing – human capital**





# Goods and services on the Norwegian Continental Shelf

## Policy starting point:

- ***Transparency, competition and non-discrimination***
- **Implies:**
  - **The best international goods and services are provided**
  - **Innovation**
  - **Cost-efficiency**
  - **Norwegian-based supply industry must constantly work to develop and maintain its international competitiveness**



# Industry development – local content

1973–1991:

## Petroleum legislation:

- **Section 34: Produced petroleum to be landed in Norway unless otherwise decided by the King in Council**
- **Section 54: Norwegian goods and services given preference **if competitive in price and quality, schedule and service****

## Condition for the award of production licenses:

- **Use of Norwegian goods and services to the extent they are competitive**
- **R&D: At least 50 % R&D related to petroleum activities to be carried out in Norway**
- **Training of Norwegian (Government and oil company) employees**

1991 -:

**No local content requirements**



# Local content: Summing up the Norwegian experience

**Coherence: Local content part of overall policy**

**Local content policy aimed at...**

- **Increasing value added > not deter investments**
- **Balancing industry and government needs**
- **Building on existing competence and capabilities**
- **Encouraging JVs with international players**

➤ **Local content policies should be temporary**



# Achievements

- **A competitive national petroleum industry**
- **Benefitting society as a whole (all parts of the country supply the petroleum sector)**
- **Norwegian petroleum industry going international (today: Norway's second largest economic sector)**
- **Stumbling stones to be aware of:**
  - **Consuming wealth rather than creating value**
  - **Delaying effect**
  - **Risk of permanent protection**
  - **Risk of corruption and red tape**
- **Requirements for increased level of local content in the oil and gas sector implies "more eggs in the same basket" – less plurality of ideas, innovation and development**





- **Statoil was established as a 100 % State owned national oil company in 1972**
- **Privatised and listed in Oslo and New York on 18 June 2001**
- **Second offering July 2004**
- **Merged with oil and gas part of Norsk Hydro on 1 October 2007**
- **The State c/o MPE presently holds a 67 % stake in Statoil**
- **Responsible for marketing and sale of SDFI petroleum in accordance with instructions laid down by the General Meeting. All revenues from the sale go directly from Statoil to the State coffers**





- **How did we develop Statoil into a world-class oil company?**
- **Statoil had some privileges in the beginning:**
  - **Until 1991, Statoil was awarded 50 % in all new production licenses (from 1985, the Statoil share was split into a share owned directly by the State, and a share owned by Statoil)**
  - **All international companies had to carry Statoil in the exploration phase**
  - **From 1979, the Statoil share could be increased according to a defined sliding scale from the time of Ministry approval of a plan for development and operation – international companies' shares were reduced accordingly**
  - **Experienced international operators were requested to be technical advisers to Statoil as operator**
  - **Statoil employees were trained by experienced international oil companies**
- **These obligations were applied equally to all international companies as a condition for the award of a new production license**
- **Since 1993, Statoil operates on the same terms and conditions as other commercial companies on the NCS – under full competition**





# Petroleum revenue and tax

Operating income (norm prices)

- Operating expenses
- Linear depreciation for investments (6 years)
- Exploration expenses, R&D and decom.
- Environmental taxes and area fees
- Net financial costs

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= **Corporation tax base (25%)**

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- Uplift (5,5% of investments for 4 years)

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= **Special tax base (53%)**

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Taxes	103,7
Environmental taxes and area fees	6,5
Net cash flow from SDFI	92,7
Statoil dividend	15,4
<b>The net government cash flow</b>	<b>218,3</b>

(2015-revenue)

- A balanced and neutral tax-system that encourages exploration, project investment and prudent asset management



# Summary

- **The petroleum legislation: Implementation of petroleum policy**
  - Predictable
  - Transparent
  - No hidden costs or sign-on bonuses
- **State/companies: Different roles – a common goal: Maximise values of the petroleum resources on the Norwegian Continental Shelf**
- **Close and active dialogue between the authorities and the industry**
- **Skilled work force and world class supply industry**
- **Highly competent and approachable public administration – decisions to be prudent, reasonable, transparent and non-discriminatory**



# Norway – an attractive host nation for petroleum activities

## What does it take?

- **High (enough) geological/petroleum potential**
- **Be prudent (stable, transparent, predictable, available)**
- **Gain the respect and confidence of the oil companies**





Norwegian Ministry  
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**Thank you for your attention!**

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## The ten oil commandments - 1971

- 1) Ensure National governance in all operations**
- 2) Secure Norway's own requirement for oil**
- 3) Establish new livelihoods on the basis of oil**
- 4) Avoid harming other livelihoods and protect the environment**
- 5) No gas burning**
- 6) As a main rule, crude oil and gas shall be landed in Norway**
- 7) The state shall actively co-ordinate Norwegian interests towards an integrated oil environment with national and international objectives**
- 8) Establish a state oil company to look after the state's business interests and co-operate constructively with national and foreign oil interests**
- 9) Adopt a suitable approach to areas north of North of the 62nd parallel**
- 10) Petroleum success will present challenges to Norway's foreign policy**

