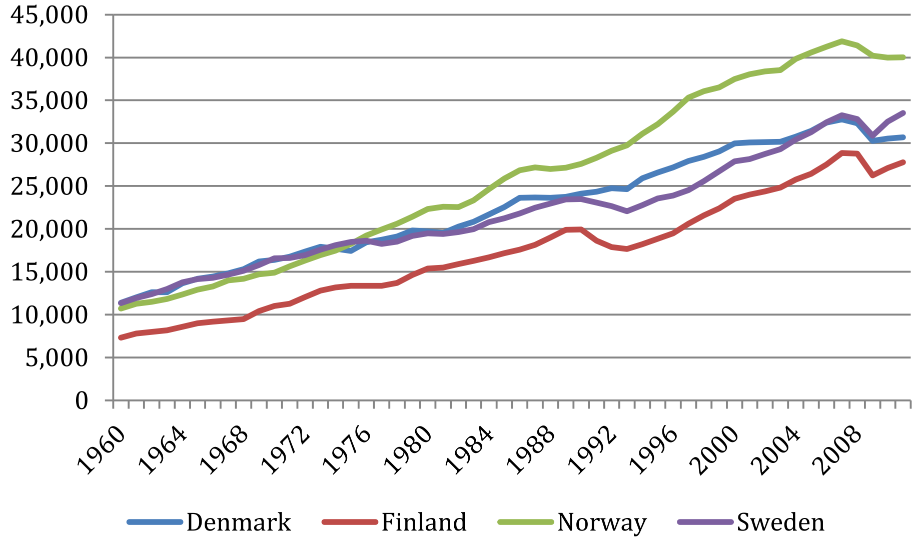
A comprehensive resource development strategy

Norway's path to inclusive and sustainable development[1]

In 1969, when the first deposits North Sea oil were found in Norwegian waters, Norway had a GDP per capita slightly below that of Denmark and Sweden (see figure 1). The forty years since has seen Norway discover huge deposits, turn these into public revenues, and manage those through well monitored policies of consumption and investment expenditure that have lifted it to the top of the European GDP tables, well ahead of the other countries in Scandinavia. They have done this while ensuring that the extractive and non-extractive sectors of the economy developed in step and the entire population benefited from the nation's resource abundance.

Figure 1 ***Norway's economic growth in comparison to its neighbors (GDP per capita, 2000 dollar prices)***



Source: World Bank Databank

The Norwegian experience is the stereotypical example of good natural resource stewardship, and it contains several lessons for other resource rich economies. However, it also highlights the importance of an adaptive policy focus throughout the various stages of development, which is why current Norwegian policies, while right for Norway, are not applicable to resource rich economies at a different stage of development.

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During the highly uncertain exploratory phase in the 1960s, there was almost no direct Norwegian involvement in the nascent petroleum sector. Having no independent knowledge, and eager to attract investment, they granted concessionary tax breaks and a 10 per cent royalty rate to private investors. The first large discovery, Ekofisk oil field, came online in 1971 under these poor contractual conditions and with only a tiny Norwegian stake in the project. With hindsight it would seem that, as the resource owner, Norway had secured too small a share of the resource's value. Only a few people in the civil service and government had been involved in what had been an opaque negotiation process, and it was realized that this would have to change in the future.

As a consequence, in 1972 the Norwegian Petroleum Directorate (NPD) and Statoil were created as the sector regulator and national oil company respectively. Independently managed, Statoil secured a 50 per cent stake in the next large concession and, over the course of four decades the company grew to control 80 per cent of Norwegian petroleum operations. The NPD progressively improved the revenue share of the Norwegian state by increasing the tax rates on new concessions; the current regime includes a 50 per cent oil tax in addition to a 28 per cent corporate tax. This increase in revenue share was achieved while ensuring the sector remained attractive to foreign investment. Initially lacking the necessary capital and local knowledge, this has been an essential element to Norway's success. In 2008, the petroleum sector accounted for 50 per cent of export value, 34 per cent of state revenues and 26 per cent of GDP. These numbers reflect more than just resource rent, as Norway had a concerted policy in place to develop a national petroleum industry, and avoid becoming a country dependent on resource revenues. Norwegian political institutions were able to draw on sufficient expertise to produce general policy guidelines in the vein of the Precepts of the Natural Resource Charter that would direct policy during the last four decades. In particular, white paper no. 25 prescribed that oil wealth be used to develop a 'qualitatively better society'.[2] Without overstating the importance of a single statement, it is clear from the sustained policies by subsequent Norwegian governments that an objective along the lines of Precept 1 was at work throughout.[3]

Operationally, this prescription translated into investment in industries that are strategic complements to upstream petroleum extraction, ensuring that such industries developed in a competitive environment. An additional institution, the State's Direct Financial Interest, was created to assess these investment projects at arm's length to the political process.

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[2] St. meld. (white paper) no. 25. (1973–74), Petroleumsvirksomhetens plass i det norske samfunnet. [The role of petroleum activities in Norwegian society]. Referenced in Ryggvik, H. (2010) The Norwegian Oil Experience: A toolbox for managing resources? Centre for Technology, Innovation and Culture, University of Oslo.

[3] Precept 1 of the Natural Resource Charter is: "Resource management should secure the greatest benefit for current and future generations. This requires an inclusive and comprehensive National vision."

By 1990 this process was deemed sufficiently advanced to consider investing resource rents abroad to smooth against revenue volatility. The Oil Fund was created with this purpose in mind. It grew to make up an increasing share of Norway's resource revenue savings, allowing Norway to follow a *bird-in-hand strategy*[4]. In 2006 the assets were officially restructured into the Norwegian Pension Fund, explicitly acknowledging its exclusive role of saving for the purpose of servicing future pension liabilities; investing mostly offshore as the Norwegian economy has achieved a high concentration of capital making investments abroad more profitable.

Benchmarking Norwegian policies against the Natural Resource Decision Chain[5], it is clear that that the people of Norway are getting a good deal, collecting revenues and managing them well. However, they were not always, and the success of their current policies is very much contingent on the current situation in Norway – the institutional framework, the level of development of the sector, the mutual trust between the parties involved, etc. – and cannot be easily replicated in different contexts. As for sustainable development, it is evident that Norway is succeeding almost in every metric. Part of this success appears to be a flexible approach to policy reforms in the face of changing economic context, even while the overarching goal remains the same. Initially, sustainable development meant using the resource revenues to develop an industry complementary to their resource wealth. Only after this was in place were revenue committed to other objectives and only in the last decade or so was the focus directed to offshore capital accumulation. Furthermore, the path to sustainable development is not complete. The North Sea oil deposits are expected to last another 50 years, and Norway's economy will have to undergo significant structural changes to remain strong as that happens. Getting the policies right during the second half of the lifecycle of extraction will be just as important as it was during the first, and if current decision makers are any less successful than their precursors, the resource poster child may yet experience the curse that has troubled so many others.

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[4] The bird-in-hand strategy is that all resource revenues are used to acquire assets, and countries consume only the interest on those assets already accumulated. See Precept 7 for more details.

[5] See Precept 1 for an explanation of the Natural Resource Decision Chain.