

Case study: Norway

Political consensus-building
on extractives



© Marius Dobilas/ Shutterstock.com

Kaisa Toroskainen and Laury Haytayan

NORWAY, KEY INDICATORS 2015

POPULATION

5.2 millionⁱ

GDP PER CAPITA (PPP)

\$61,200ⁱⁱ

MAIN NATURAL RESOURCES

Oil, Gas

RESOURCE RENTS AS % OF GDP

9ⁱⁱⁱ

POLITICAL SYSTEM

Parliamentary democracy

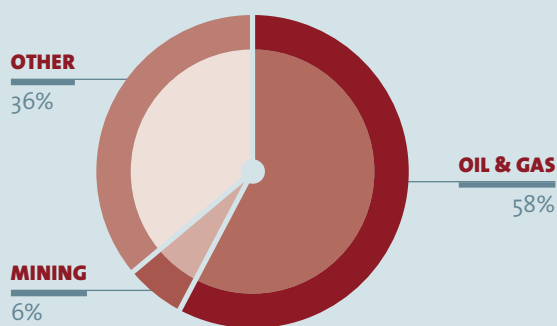
RULING PARTIES

Conservative Party,
Progress Party

OPPOSITION PARTIES

Labour Party,
Centre Party,
Christian Democratic Party,
Liberal Party,
Green Party,
Socialist Left^{iv}

EXPORT SHARES, 2015^v



ⁱ "DataBank 2015: Population, total," World Bank (2015), accessed on 5 September 2016, <http://data.worldbank.org/indicator/SP.POPTOTL>.

ⁱⁱ "DataBank 2015: GDP per capita (current US\$)," World Bank (2015), accessed 5 September 2016, <http://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD>.

ⁱⁱⁱ "DataBank 2015: Total natural resource rents (% of GDP)," World Bank (2015), accessed 5 September 2016, <http://data.worldbank.org/indicator/NY.GDP.TOTL.RT.ZS>.

^{iv} Parliament of Norway (Stortinget), <https://www.stortinget.no/en/In-English/Members-of-the-Storting/Parliamentary-Party-Groups>.

^v "DataBank 2015: Fuel exports as % of merchandise exports," World Bank (2015), <http://data.worldbank.org/indicator/TX.VAL.FUEL.ZS.UN> and "DataBank 2015: Ores and metals exports as % of merchandise exports," World Bank (2015) <http://data.worldbank.org/indicator/TX.VAL.MMTL.ZS.UN>.



Case study: Norway

Political consensus-building on extractives

Political system

Norway's political system is a representative parliamentary democracy with a constitutional monarchy. Under the leadership of the prime minister, the cabinet exercises executive power. Legislative power is vested in both the government and parliament (Storting), elected within a multiparty system. During the past decades, coalition governments mainly led by Conservative and Labour parties have ruled the country. Specific features of the Norwegian political system include fixed parliamentary terms, meaning elections cannot be called during the parliamentary term, and a tradition of minority governments.

Natural resource endowments and governance

Norway discovered oil in the 1960s and has since become one of the world's major oil producers. Extractive industries as a whole accounted for 15 percent of GDP and 20 percent of government revenues in 2015.³⁹ The roles of the main institutions in the sector, including the Petroleum and Energy Ministry, the Petroleum Directorate and Statoil, are defined in legislation and policy, as are the rules for managing petroleum income.⁴⁰ Oil revenues are deposited in the Pension Fund (previously called the oil fund), which is governed by the central bank under the guidance of the Ministry of Finance, ultimately reporting to the Storting. The central bank manages the funds' day-to-day investment decisions.⁴¹ Norway's governance of its oil revenues via the Pension Fund and the budgetary rule⁴² has been widely recognized as stable, transparent and democratic.

³⁹ Figures reported by Norsk Petroleum and the World Bank may differ. See <http://www.norskpetroleum.no/en/economy/governments-revenues>.

⁴⁰ *Resource Governance Index* (Natural Resource Governance Institute, 2013), http://www.resourcegovernance.org/sites/default/files/country_pdfs/norwayRGI2013.pdf.

⁴¹ Norges Bank Investment Management, <https://www.nbim.no/en/the-fund/governance-model>.

⁴² "A fundamental principle of Norwegian fiscal policy is the so-called budgetary rule. It states that over the course of a business cycle, the government may only spend the expected real return on the fund, estimated at 4 percent per year." See <https://www.nbim.no/en/the-fund>.

This case study analyzes the role of political parties and consensus building in creating such a governance environment, as well as some of the recent trends reflecting shifts in Norway's political landscape.

Dialogue and consensus building: The oil fund

The oil fund, subsequently named the Government Pension Fund of Norway, was created in 1990. Before fund's establishment, revenues flowed directly into the national budget, causing concern among Norwegians about "Dutch disease" effects such as currency appreciation and a consequent decline of non-extractive export sectors. Against this backdrop, "it was not difficult to reach consensus on the fund, as both Conservative and Labour parties agreed that it is impossible to introduce all the oil money into the Norwegian economy at once," said Per-Kristian Foss, MP and former finance minister of the Conservative Party and current auditor general.

"The political culture is not always that of agreeing, but that of negotiating and then committing to the negotiated result, which is necessary to achieve broad agreement."

MP Marit Arnstad

The Ministry of Finance made its original proposal to set up the fund already in 1983, when the Conservatives, Christian Democrats and the Centre Party were in government. They initially drafted the fund's structure, management and governance principles, as well as the fiscal rule stipulating that no more than the average return on the assets should be transferred into the annual budget. Subsequently, the Labour Party came into power and finalized the rules and institutions on the basis of the existing agreement on guarding the economy from Dutch disease. Hence, all major political parties were involved in reaching an agreement on the design of the fund's principles and the fiscal rule.

Another factor contributing to political consensus was that when the fund's rules were drafted in the mid-1980s, oil revenues were fairly modest, and hence the creation of the rules did not spark intense political debate, and it was easy for politicians to agree to the detailed principles drafted by the Ministry of Finance. During the following years, successive governments have remained committed to these principles. The opposition has also broadly supported occasional larger withdrawals from the fund after the financial crisis in 2009–2010 and the oil price drop in 2015.

Only the Socialist Left and Progress parties were not involved in the original consensus on the oil fund. Subsequently both have been critical of the fund and advocated for greater spending of oil revenues. The main parties "used a lot of pedagogical skills," as described by Marit Arnstad, MP and former minister for petroleum and energy of the Centre Party, to convince the critical parties and voters on the risks of overspending oil revenues. It is interesting to note that when the Progress Party formed a coalition government with the Conservatives in 2013, their position on the oil fund became more moderate, reflecting the need to negotiate and compromise when in government.

Despite the broad consensus on the oil fund's basic principles and the fiscal rule, there has been a lively debate on the fund's investment strategy, and

Box 2.1 ***Party policy position development in Norway***

Norwegian parties follow the four-year electoral cycle in their political program development. The programs are adopted at party congress meetings, typically one to two years before the next general election. Wide and frequent consultations with academia, constituencies and the industry are commonplace during program development.

Most parties have broadly agreed upon the overall revenue management system, but the oil fund's investment strategy and the opening of Arctic areas for exploration have divided parties internally, and votes have been won by close margins. Party positions are determined through voting, after which party members commit to the majority's decision.

The established parties have developed their understanding and research capacity on the oil sector over the decades. Rasmus Hansson, spokesperson and MP of the Green Party, which obtained representation in the Storting for the first time in 2013, reflects on the capacity of a small party when developing the proposal to phase out oil activities within the next 20 years: "Compared to a big party, we had a limited amount of research capacity to calculate the exact financial effects of such a move. Most of our expertise comes from NGOs. But we relied on the logic and argued that phasing out oil is not a question of 'if,' but 'when and how.' Increasingly, the other parties are taking this position seriously."

parties as well as the parliament have played a crucial role in this discussion. The proposal to exclude fossil fuel industry companies from the fund's investments was first introduced in parliament in 2013 by the Green Party, a new entrant in parliament. In the beginning, it was voted down with crushing numbers. However, within months, the Socialist Left party introduced a proposal on the same topic. The Conservative-led government initially opposed these proposals and favored purely economic investment criteria with only few industries such as tobacco companies to be excluded on ethical grounds. After negotiations, a proposal to exclude coal but not other fossil fuel intensive companies was passed to the Ministry of Finance for more detailed planning, which was finally adopted by parliament in 2014.⁴³

The processes of agreement on the oil fund's establishment and its investment criteria reflect Norway's political culture: compromising and negotiating. Arnstad of the Centre Party highlights that the political culture is "not always that of agreeing, but that of negotiating and then committing to the negotiated

⁴³ See <https://www.nbim.no/en/the-fund/governance-model/guidelines-for-observation-and-exclusion-from-the-fund>.

result, which is necessary to achieve broad agreement.” Foss describes it as “striking a balance between agreeing and disagreeing. For example, you can agree on a tax system but still from time to time disagree on the level of taxes.”

Minority and coalition governments force even the largest parties to reach compromises for two reasons: First, when any party could be part of the next government after elections, it encourages them to be constructive even in opposition. Second, parties are discouraged from making unrealistic promises before elections, as they probably have to negotiate on a government program with another coalition partner.

Box 2.2

The importance of inter-party dialogue in consensus building: A personal experience

by Einar Steensnæs, former minister for petroleum and energy,
Christian Democratic Party

As the minister for petroleum and energy in a minority coalition government (2001–2004), I was responsible for the preparation of a proposal on the further development of petroleum activities in the Arctic part of Norway. Among the parties in the coalition government, there was strong disagreement about which areas could be opened for new petroleum activity.

To ensure a balanced proposal that would be acceptable to both the government and a broad majority in parliament, I facilitated an extensive round of consultations and invited the oil industry, environmental organizations, research institutes and representatives of local governments to submit their views. In the written statements I received, most of the bodies consulted upheld their primary positions, which were well known to me and did not bring any new insights to my work.

I then invited some of them for confidential conversations in my office and explained that I was going to suggest a balanced position between the extremes of the debate, giving them an opportunity to influence where the point of compromise should be positioned. Some of them realized that they had a chance to influence the profile of the government’s proposal and gave me some oral, subsidiary views to feed into the final decision. These consultations gave me valuable insight into the opportunities for a politically achievable solution that was close to my assessment and priorities as a minister. With an adjusted rough draft, I then conducted inter-party dialogue meetings with government parties, as well as the opposition in parliament.

Only after all these meetings and hearings, I went to the government with my suggestion on the way forward. Although parties had initially disagreed, it was not particularly difficult to obtain the ruling coalition’s support for my proposal, as all parties in government realized that a compromise between different viewpoints was necessary to get a majority behind it in parliament. With a few notes the proposal was then unanimously endorsed in the Storting.

“An informed electorate also holds parties accountable on what kind of compromises they enter into,” says Foss. Even though a survey conducted in 2011 said 73 percent of Norwegians were not familiar with the fiscal rule, then-finance minister Sigbjørn Johnsen of the Labour Party was not worried: “I think our message has gotten through, that we shall use the fund’s returns and not the fund itself, and that we can use less in good economic times and more in bad times... As long as we get support for the main purpose of the rule, I’m not worried.”⁴⁴

The oil sector’s sustainability: Opening of new exploration areas versus environmental concerns

Parliament can best influence decisions along the value chain when deciding about opening an oil block for exploration.⁴⁵ At later stages, e.g., when granting a production licence after a discovery has been made, decisions are mainly made in negotiations between the Ministry of Petroleum and Energy and the company. Hence, political parties have played a crucial role also in the debate of opening new areas for oil exploration and drilling. Overall, it has been more difficult to reach consensus on this topic than on revenue management issues, as fundamental values and specific interests come into play. For example, the Lofoten Islands area has been kept closed off from oil activities because smaller coalition parties representing interests of communities dependent on fisheries and other livelihoods threatened by oil activities have blocked initiatives to open these areas.

Until recently, exploration decisions have been made by balancing environmental conservation objectives with economic interests. Concerns about climate change and the more fundamental question of oil’s sustainability as the basis of the Norwegian economy in the future was brought into the debate by the Green Party in 2013, with a proposal to phase down oil activities within 20 years; the position has subsequently been adopted by the Socialist Left Party. Concern for climate change and the willingness to consider a Norwegian society without oil is more prominent among Norwegians living in Oslo and central parts of the country, with less immediate benefits from job creation and other direct positive effects of the oil industry. Although both Green Party MP Rasmus Hansson and representatives of other parties conclude that the “4 percent support for the Green Party reflects that a large majority of the

⁴⁴ “Few aware of oil revenue rule,” *News in English*, 22 April 2011, <http://www.newsinenglish.no/2011/04/22/few-aware-of-oil-revenue-rule>.

⁴⁵ On the role of the Storting regarding proposals to open new areas for petroleum licencing: While parliamentary approval is not legally required for this, in practice the Ministry of Petroleum and Energy presents its plans to the Storting, which reviews the proposal and expresses its views. In line with Norway’s overall parliamentary system, the government typically follows the parliamentary view when taking the formal decision. A similar practice has evolved around the approval of new field development plans. While these plans are formally approved by the ministry, in practice investments above a certain level are always presented to the Storting, in line with a general constitutional requirement to present matters of great importance to the parliament. Through these informal powers the Storting can have a say on where and how exploration can proceed as well as ensure that the executive has adhered to due process on consultations and impact assessment.

population is not yet ready to give up the oil sector,” larger parties are also increasingly adopting similar rhetoric.

Changes ahead in the foundations for consensus

The broad consensus on Norway’s principles for oil sector management was created during an era when the Labour Party and the Conservatives dominated the political arena and agreed upon expanding oil production, keeping the fund’s investments abroad and setting the fiscal rule. Some researchers have suggested that this consensus may now be changing, as the parliamentary majority of these parties is narrowing and new parties that are willing to question the consensus gain electoral support.⁴⁶

The critical voices are becoming stronger due to the drop in oil prices and the resulting economic crisis as well as the climate challenge. The Progress Party’s recent surge in support partly stems from the south-western oil producing areas, where voters are demanding the channeling of oil funds to infrastructure development, as compensation for job losses.⁴⁷ Consequently, the Progress Party advocates for investing oil revenue domestically and splitting the fund into smaller special purpose funds to boost the domestic private sector. At the same time, the Green Party has proposed using the fund to create global markets for green-economy technologies. While some politicians now say they are concerned with the questioning of longstanding principles, the majority of parties in both government and parliament is still supportive of the existing consensus and guards against major shifts in policy. In spite of the changing political landscape, politicians believe that even those critical of the fund’s investments and mandate are committed to the institutions governing the fund, and especially the principle that politicians should maintain an arm’s-length relationship to its day-to-day management.

The entrance of new parties into the debate also impacts conduct in politics. Traditionally, issues were informally discussed and negotiated before being brought into a committee meeting or the parliamentary plenary. This is highlighted in how Einar Steensnæs, former minister of petroleum and energy from the Christian Democratic Party, explains the process of parties and stakeholders’ consultations on Arctic drilling (see Box 2.1). Parties that are smaller, less established or newer to the political arena do not have the same capacity or networks to influence decisions behind the scenes. Hence, they use parliamentary debates and the media to make bold proposals and also, in the words of MP Rasmus Hansson, to push other parties to “voice their opinions by voting and debating, which will be remembered”.

⁴⁶ Dag Dyrdal, “Tverrpolitisk pensjonskasse eller aktivt politisk verktøy?” *Internasjonal Politikk* 74 (2016): 1–11.

⁴⁷ See, for example, “Norway’s Progress Party seeks big changes in new government,” *Reuters*, 15 August 2013, <http://www.reuters.com/article/us-norway-election-idUSBRE97E0SC20130815>.