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# Doing things in the Norwegian way

## Could Alaska boost its oil production by borrowing some ideas from Norway's success in attracting investment & spurring development?

Alan Bailey

*Petroleum News*

With very high personal taxes and cradle-to-grave welfare, the culture of Norway is poles apart from that of Alaska. But could Norway's success in attracting oil industry investment point to some ways of improving Alaska's oil investment climate, to ensure that the "Last Frontier" does not become the last place in which to place oil development dollars?

In the summer of 2010 an Alaska delegation of politicians and other stakeholders in the Alaska oil industry visited Norway, to learn how the Norwegian oil industry works and to find out what Alaska can learn from the Norwegian experience.

And at a meeting of the Alaska World Affairs Council on Jan. 13 several people who took part in that visit participated in a panel to discuss lessons learned.

### Production leveling

## Norway's permanent permanent fund

Norway has a permanent fund, established from oil revenues, that was originally based on Alaska's permanent fund, Ira Perman, chairman of the Institute of the North, commented during an Alaska World Affairs Council panel discussion on comparisons between the Alaska and Norwegian oil industries.

But, despite being in existence for only half the life of Alaska's fund, and despite the

Panel member Ira Perman, chairman of the Institute of the North, said that during the growth of Norway's oil industry the country's oil production ramped up more slowly than Alaska's, peaked a little later, has not fallen as far and now seems to be leveling out.

"What they told us is that they have stopped the decline of their oil and gas," Perman said. "They're managing to keep that level up about three times as high as we are and they anticipate they can continue to do that for the next 10 to 20 years."

Bradford Keithley, partner in the oil and gas practice of Perkins Coie LLP, attributed the decline in Alaska oil production to a parallel decline in Alaska oil investment.

"We're shorting investment by roughly half of what we need to do in terms of getting production up," he said.

### **Government participation**

Keithley said that, from his perspective, one of the biggest factors in encouraging oil industry investment in Norway is the Norwegian government's own investment in the country's oil and gas fields. Petoro, a company wholly owned by the Norwegian government, invests along with private industry as a working interest owner in every Norwegian field, with the government providing its share of development capital and subsequently earning its share of field profits. The extent of government financial participation in different fields varies, depending on the risks involved, but averages about 20 percent, Keithley said.

In Alaska, the government tries to drive the oil industry from the back seat through regulation, trying to push oil companies into doing what appears to be in the state's interests, while sometimes pushing for actions that industry does not see as good investments, Keithley said. Under the Norwegian system, however, government and industry interests tend to be aligned, he said.

In fact there have been occasions when Petoro has come forward with a resource development idea that none of the companies participating in a license had thought of, Keithley said.

"In Norway the government invests ... alongside industry ...

production of less oil during the fund's existence, Norway's permanent fund now has assets of about \$570 billion, compared with a value of around \$40 billion for Alaska's fund, Perman said.

"They anticipate their permanent fund will be \$3 trillion before they run out of oil and gas," he said.

The difference in the values of the two funds results from the fact that Norway, unlike Alaska, stashes away all of its oil revenues in its permanent fund, with only up to 4 percent of the fund being available annually to supplement the national budget, said panelist Rebecca Logan, general manager of the Alaska Support Industry Alliance.

Essentially, Norway views its permanent fund as a rainy day fund, meantime maintaining the country's high level of taxation despite the oil wealth that is flowing into the national coffers.

—Alan Bailey

and so it's in the room, facing the same economic situation that the companies are (facing), seeing the same economic returns, seeing the same economic limitations," Keithley said. "And it aligns the state's interests to go in the same direction as industry because they see the opportunity for returns in the same way."

The result is to generate more investment, both on the government side and on the side of private industry, Keithley said.

"It grows the pie, rather than what we do in Alaska, which is fight about what share everyone gets of the existing pie," he said.

And, whereas in Norway there are no lease bonus bids or production royalties, with the government making its revenues from its share of field profits, in Alaska 15 percent of what companies make from oil production goes to the government in the form of royalties. In effect, private companies pay 100 percent of the investment for developing an oil field but only receive 85 percent of the return, Keithley said.

### **Tax comparison**

Rebecca Logan, general manager of the Alaska Support Industry Alliance, also commented that at current high oil prices Norway's marginal tax rate for oil production is 78 percent, compared with Alaska's marginal rate of 85 percent. And Norway's tax rates do not increase with a rising oil price, she said.

Keithley said that, initially, Norway used an oil and gas leasing system similar to that in the Alaska as a means of building a cash reserve for future investments. But Norway had found that the leasing system tended to distort industry investments away from Norway. So, with sufficient cash in hand for direct government investment in oil and gas projects, Norway had switched over to its current licensing system.

### **Efficient permitting**

Elle Ede, stakeholder engagement manager for Statoil Alaska, said that what had particularly struck her in the Norwegian approach to oil development was the speed with which permitting can be done. In Norway it takes approximately eight months to obtain the permits required for an exploration

project. That compares with 14 months in the Gulf of Mexico and 32 months in Alaska, without taking into consideration delays that result from legal challenges, Ede said.

“We can’t ignore the fact that part of the success in Norway is that stable regulatory environment that is very attractive to operators, because they understand that there is a predictable process and that they can succeed in a defined timeline,” Ede said.

All Norwegian oil and gas development happens offshore.

But in Norway the debate about environmental concerns versus the benefits of development takes place before the government offers oil and gas licenses, Perman commented. When the government wants to open a new area for licensing there is a stakeholder process to engage oil companies, fishermen, environmentalists, coastal communities and the government in a discussion around the various issues involved, leading to a view of whether or not to open the area. Although this discussion process can take several years to complete, the end result is an agreement, potentially with stipulations, that goes to the Norwegian parliament for a final decision. And if the parliament decides to open the area, exploration and development can move ahead efficiently and predictably – the decision has been made and there is no further litigation, Perman said.

The upshot can be a decision not to open an area. There has been relatively little oil development in the Norwegian Sea, for example, because this is an important fishing area, Keithley said.

### **Licensing process**

When the government opens an area for leasing it conducts an initial 2-D seismic survey, with the results of that survey becoming publicly available. Companies can shoot additional seismic of their own, if they wish, Keithley said.

Norway then awards licenses for oil and gas exploration on the basis of work plans rather than cash. In other words, companies bid work plans, with a license being awarded based on an assessment of early work commitments, a company’s financial strength and a company’s safety record, he said.

“From day one they are committed to go forward into work on the lease,” Keithley said. A license can be terminated if a company does not meet its scheduled work commitments, he said. And the license is returned to the state if a discovery is made and the company is not prepared to move on to field development after the initial work is completed. Most environmental permitting is done at the front end of the process, with environmental stipulations being built into the work plans.

Depending on the work plans submitted by different companies for the same area, the government may offer a license to a consortium of companies. And the government specifies what percentage interest it will acquire in the licensed project, as part of the conditions for issuing the license.

However, to avoid political interference in business considerations, licensing decisions are made by staff within the licensing agency, and not by the politically appointed minister or deputy minister in charge of the agency, Perman said.

### **In Alaska**

But how much of the Norwegian system could or should be applied in Alaska?

Logan said that she thinks that state involvement as a working interest partner in new projects could work in Alaska.

However, Alaska cannot mimic Norway’s expedited permitting process because of the multiple government jurisdictions involved in Alaska oil and gas, and because of the potential in Alaska for litigation after permits have been issued, she said.

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