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Norway – Oil, Industry and Money
Extending the Value Chain

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Avoiding the Resource Curse

- Oil provides much money and few jobs, a *rentier* economy, for some time
- Countries with high export earnings from natural resources often experience an overvalued exchange rate and high inflation, compromising the competitiveness of other activities, causing unemployment amidst financial wealth that erodes
- The term “Dutch disease” is based on the Netherlands case where natural gas revenues crowded out other income
- Norway has *tried* to avoid the resource curse and the Dutch disease

Extending the Value Chain

- The traditional oil industry value chain
  - Exploration and Development
  - Production
  - Refining and distribution
- Non-traditional parts
  - Supplying goods and services, creating jobs
  - Investing the proceeds, securing long-term income

Controlling the Activities

- At the time of the first finds around 1970, oil was seen as a promise and as a threat to an already developed economy
- The challenge was to control the industry through a transparent concessionary system, special taxation, a national oil company, the pace of activity, and a moderate use of the revenues
- Statoil and the National Petroleum Directorate were established in 1972
- Initial good intentions soon led to blunders, with trials and errors, because a small, open economy is exposed to risk

Managing the Supply Chain

- At the outset Norway had a strong maritime tradition and a large ship-building industry
- From 1972 to 1994, oil companies had to buy at least one half of goods and services from Norwegian suppliers, but they were free to choose what to buy from whom; the yardstick was value added, so that high-value supplies were preferred
- The oil companies were credited for R&D joint ventures with Norwegian suppliers and research institutions
- The government financed petroleum related R&D
- Statoil initiated a suppliers development programme

Taking Care of the Money

- The 1973-1974 oil price rise caused concerns about overheating the Norwegian economy
- The principle of moderation was settled, but not respected
- Twice, Norway was caught by oil revenues that did not come
- In 1992, the sovereign wealth fund was established, taking all state income from oil
- By 2018 the Fund’s value is about USD 1 trillion, three times non-petroleum GDP, per capita USD 200 K
- Transfer from the Fund to the budget is 8 per cent of GDP
- Could the Fund cause a “Norwegian disease”?