

The reorganisation of Statoil “Clipping its wings” or symbolic politics?

By Finn E Krogh, Norwegian Petroleum Museum

The cross-party agreement which had prevailed at Statoil’s birth in 1972 did not last long. As early as 1973, when the company was to take over the state’s rights in Frigg, conflicts arose over its authority and the need for arrangements which ensured that elected politicians were in control.

When the Conservative Party took office after the general election in 1981, the following were the most important accusations levelled against Statoil’s position in the Norwegian oil industry:

- the company had become too large and dominant
- it threatened the democratic order by becoming a “state within the state”
- it mixed commerce with administration
- it could create an unhealthy dependency in Norwegian industry
- the amount of money at its disposal could lead to wasteful use of society’s resources.

Conservative objections to the Statoil system had become a key component in the party’s policies during the second half of the 1970s. However, the Labour Party’s confidence in the state oil company prevented these criticisms from going beyond the Storting (parliament) chamber.

Future visions

Forming a minority government under Kåre Willoch after the 1981 general election gave the Conservatives a real opportunity to secure acceptance of their critical views.

In its accession statement, the administration expressed a desire to adopt measures which would change Statoil’s position within the structure of the state. The aim was to reduce the company’s anticipated growth up to 2000, and to avoid the prospect of a concentration of financial power.

The political debate on Statoil’s future was coloured at this time by growth forecasts based on a high oil price and a steadily rising pace of development. On the basis of such calculations, the company might control a third of government revenues around 2000.

This vision of future state capitalism was highlighted by the Conservatives as a threat to opportunities for political control of the oil sector. The Centre and Christian Democratic parties supported this thinking – which meant that a majority existed in the Storting for reforming Statoil’s role in the Norwegian oil industry.

Prime movers

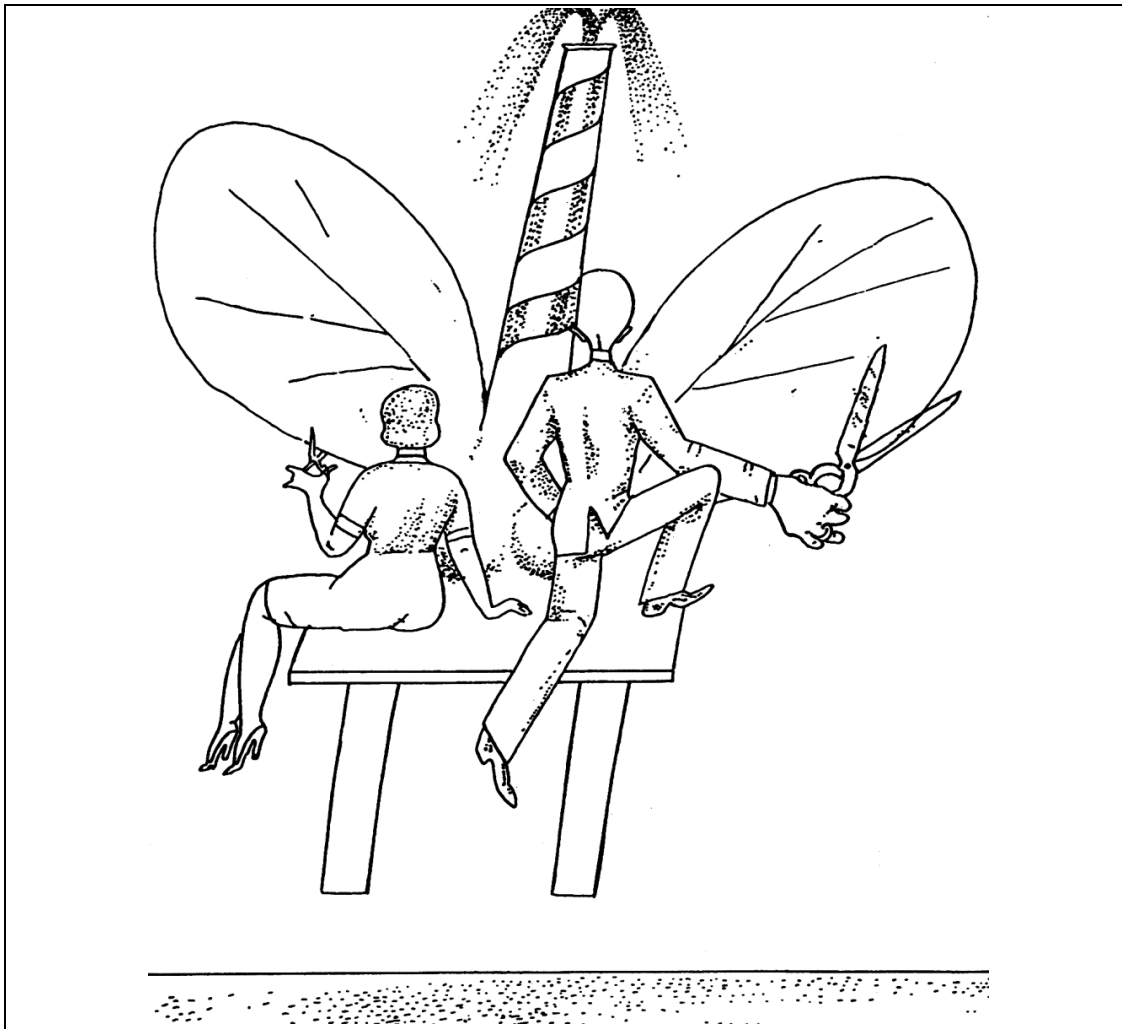
With their newly acquired government office and a centre-right majority behind them, the Conservatives set to work to realise their ideas for reform. The party’s views on the organisational aspects of Norwegian oil policy had been publicised well ahead of the autumn general election.

Its oil policy committee had been very critical of Statoil in a report it issued to counter the Labour Party’s 1980 White Paper on perspectives for Norway. This document had outlined specific guidelines for a reform of the state oil company.

The issue also occupied a key place in the election campaign. Two prominent members of the Conservatives' oil policy committee, Vidkunn Hveding and Hans Henrik Ramm, became minister and state secretary (junior minister) respectively for petroleum and energy in the new government.

From these positions, they could decide for themselves on the guidelines for future reform work. In this way, those with oil policy expertise in the Conservative Party became prime movers and players in the actual decision-making process.

Surprisingly wide support was shown for the ideas in the Conservative counter-report by the administration in the Ministry of Petroleum and Energy (MPE). These civil servants had felt overpowered on several earlier occasions by Statoil's ability to get issues approved at the political level without sufficient account being taken of the ministry's own assessments. Over time, that had created a strained relationship between the two sides. The civil servants accordingly took a positive view of the Conservative government's reform proposals.



How much should the wings be cut? The size of the scissors wielded by Conservative premier Kåre Willoch (right) and Labour leader Gro Harlem Brundtland says a great deal about the main issue at stake in the big "oil compromise" over the Statoil reform. Well-known Norwegian cartoonist Finn Graff cut to the heart of the debate when the final compromise negotiations began between the centre-right coalition and Labour. *Arbeiderbladet*, 15 March 1984.

Commission with tight mandate

A commission chaired by former Supreme Court judge Jens Christian Mellbye was appointed in February 1982 to study alternative solutions for a reform of the prevailing organisation.

Its mandate was tightly drawn and closely related to the Conservative oil policy programme. Government revenues, direct and via Statoil, were not to be reduced in relation to the existing system. Nor were the state's financial and other rights to be reduced.

This meant in practice that the commission's recommendations had to stay within the parameters of the Conservative government's oil policy goals. The recent counter-report from the Conservatives served as a guideline in that context.

In this way, the ruling party secured a high level of control over the decision process. The Labour Party, on the other hand, described the commission's work as being done "to order".

Mellbye commission report

After a year's work and a hectic final stage, the commission could present a unanimous report (Official Norwegian Report/NOU 1983, 16) on 21 February 1983 concerning the organisation of state participation in the petroleum industry.

It was emphasised that the commission had sought to discharge its assignment in line with the government's mandate. When Mellbye submitted the report to Hveding, he explained that its proposals were based on the government's clear parameters and goals.

The commission's findings can be summarised under the following main points:

- a significant part of Statoil's revenues should be channelled directly to the Treasury
- Statoil's powers in the operational joint ventures should be rebalanced (removal of its right of veto)
- the state's instruments – the MPE and the Norwegian Petroleum Directorate (NPD) – should be strengthened to ensure increased control by elected politicians
- measures to promote the development of Hydro and Saga as the other Norwegian oil companies.

To ensure that the state's overall rights were not weakened, the report proposed that the petroleum and energy minister, acting as Statoil's general meeting, should have the power to direct the whole state vote in the joint ventures. This would apply only to issues regarded as so important that the minister should have an opportunity to influence their outcome.

The commission also stated that the proposed changes must apply to production licences which had already been awarded. Without such a retroactive effect, the new organisational structure would have no practical consequences until far into the future – perhaps not before 2000.

But the commission would not make any specific recommendations on the size of the government's interest in the various licences. It emphasised that this issue had to be left open for political assessments – and thereby make the new structure flexible in relation to changing political regimes.

Amputation

The Mellbye commission's report was well received in government circles. Ramm, who had been the Conservative Party's leading player throughout the process, expressed great satisfaction that the proposals lay so clearly within the parameters established in the commission's mandate.

Statoil's management had maintained a low profile throughout the commission's work. Nor was it willing to make any official comment on the proposals presented when the

report appeared. Neither chief executive Arve Johnsen nor chair Finn Lied were prepared to express any views about the commission's conclusions.

However, Labour daily *Arbeiderbladet* possessed confidential information about reactions in the company and brushed aside any doubts about Statoil's views on the reform plans. An article published the day after the report was presented described the mood in the company as follows:

"Nobody in the Statoil management wanted to comment on the report yesterday, but *Arbeiderbladet* was told 'this is not a clipping of our wings – it's an amputation'. People in the state-owned company say bluntly that they perceive the report as a direct vote of no confidence in Statoil's ability to manage the assets which the political authorities have so far resolved to provide it with. Many within the company refuse to believe that the political authorities, including the Conservative government itself, will go as far as has been proposed."

Political controversy

None of the reactions to the Mellbye commission's recommendations can be regarded as surprising. Rather, the positions which emerged were a conformation of battle lines fixed since the reform issue appeared on the political agenda.

Curbing Statoil became a controversial oil policy subject over the three years it wandered in and out of the political arena. Labour strongly opposed the Conservative plan to "clip the wings" of Statoil, maintaining that this would weaken the state company and reduce its ability to compete with the big foreign oil companies.

The issue also activated key ideological divisions between the Conservatives and Labour over the question of state involvement in commercial enterprises and the scope of state participation in the oil business.

In the summer of 1983, the minority Conservative government was converted into a centre-right ("non-socialist" in Norwegian parlance) coalition with the Centre and Christian Democratic Parties.

This meant that the Statoil reform became the subject of negotiations between the three non-socialist parties on the one hand and Labour on the other. However, there were few signs that a negotiated solution to the issue would be possible.

Reform measures

On the basis of the Mellbye commission's recommendations and despite many negative comments in the public consultation which followed, the government proposed two principal measures to limit Statoil's financial expansion and to reduce its potential power in relation to other players in the Norwegian oil industry.

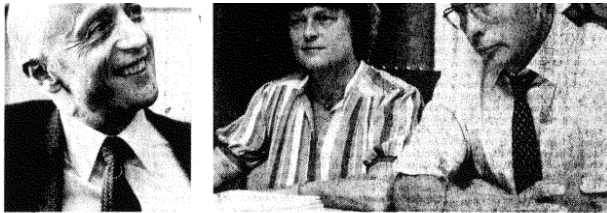
1. Split the cash flow into a state share and a company share. The government would thereby secure direct control of a specified percentage of current gross revenues and expenses (this became known as the state's direct financial interest – SDFI). How large this proportion should be would vary from field to field. In the Gullfaks and Troll licences, however, it was proposed that the state should take over no less than 73 per cent of the 85 per cent originally awarded to Statoil.
2. Amend the voting rules in each licence so that Statoil would no longer have a majority and a veto on its own, but would have to cooperate in future with one or more of the other licensees to reach decisions.

These proposals were chosen in order to concentrate on the operating parameters related to Statoil. By channelling the bulk of the cash flow directly to the Treasury, the "problem" of capital accumulation in the state oil company would be avoided. And amending

the voting rules simultaneously altered the way decisions were reached in a licence. The main aim was to eliminate Statoil's dominance over the other companies.

No action was proposed to strengthen overall political control of Statoil. These had been excluded at an early stage out of regard for the company's commercial freedom of action and the desire to underline a division between commerce and administration.

However, the Labour Party rejected the proposed measures. A serious split over oil policy was accordingly on the cards if the government opted to introduce its reform measures via a pure majority vote. The conflict over "clipping the wings" of the Statoil could thereby bring to an end a long period of political consensus over key issues in the Norwegian oil industry.



Statsminister Kåre Willoch har forhandlet seg fram til enighet med Arbeiderpartiets Gro Harlem Brundtland og Finn Kristensen.

Enighet om Statoil

- 7 APR. 1984

Detaljsspørsmål gjenstår i forhandlingene med Arbeiderpartiet

Av JOHN OVE LINDØE

Oslo-Aftenbladet: - Gårsdagens forhandlingsmøte mellom Regjeringen og Arbeiderpartiet markerte et gjennombrudd i forhandlingene om Statoils framtidige rolle. Det kan formuleres så sterkt at de nå er blitt enige om prinsippene, og at det som gjenstår, er en rekke uavklarte detaljsspørsmål.

Statsminister Kåre Willoch medga like etter møtet at regjeringens har gitt opp kravet om at Statoils eierandeler skal splittes opp.

et stykke vei å gå før de er helt enige. En løsning er her å la Statoil bare bruke en viss prosent av sin stemmetyngde, og så la selskapet få bruke den resterende

hvis det ikke ender med enighet, så er det ikke vilje nok til støtte, sa Gro Harlem Brundtland.

Forhandlingene hittil har imidlertid vist at nettopp viljen har vært til stede, og ingen observatører regner med at det vil oppstå uøstelige problemer i den videre prosessen.

Arbeiderpartiet og Regjeringen møtes til nye forhandlinger onsdag, og Regjeringen tar sikte på å fremme stortingsmeldingen om Statoil i statsråd neste fredag.

På sakforhøret møtte statsrådene

konv. Høyre. Regjeringspartiene fraksjonsførere i Indre (Leiv), Arntjot Svoin, Du stat, kretu statas Ramm, Røedjan. De tre sakale som i for det Mellby om Statoil-lagt fram for

hvertu open for en løp... gjenomsig... gena syn slik det i grove trekk a-

- Verken klipp eller vingestuss

13 MARS 1984

Men Ap med Statoil-invasjon til Regjeringen

- Det er verken snakk om vingeklipping eller vingestuss av Statoil.

- Dette sier Arbeiderpartiets industripolitiske talsmann, Finn Kristensen. Partiet kom i går med en invitasjon til Høyre for å få til hovedpolitisk enighet om Statoils virksomhet i årene som kommer.

I et brev til Willoch

- Det er av spesiell positiv interesse at Arbeiderpartiet er enig i at en del av inntektene som nå finansieres via Statoil, i stedet bør gå direkte til staten, sier Willoch. Statsministeren sier at regjeringen legger

- Med de store ressurser som blir tilført Statoil, kan om få år bli så en ut-

Statfjord-feltet

Vingeklipp gir tap for Statoil

- 1 MARS 1984

underskudd dersom Statfjord-andel reduseres

Statoil kommer til å gå med underskudd til og med 1987 dersom selskapets eierandel i Statfjord-feltet blir redusert til 50 til 55 prosent. Dette kom fram i et møte i går med statsrådene som nå pågår med henblik på å redusere Statoils rolle i oljevirksomheten. Etter det Aftenbladet har fått vite de tilfelle angår Høyre senger Statoil-virksomhet. Forklart er at ikke sier

This collection of cuttings from the Stavanger Aftenblad daily in March-April 1984 reveals how the Statoil issue was covered as a final compromise between the government and Labour loomed.

Opposition from "west coast" Conservatives

Nor was the non-socialist alliance without its own opponents of the Statoil reform. Key politicians in both Centre and Christian Democratic parties questioned major parts of the package.

That applied not least to Finn T Isaksen, minister of agriculture from the Centre Party and a former Statoil director. He argued strongly in favour of reducing the financial impact of a possible reform.

But the strongest internal opposition to the government came from the wing of the Conservative Party rooted in western Norway. Stavanger's Arne Rettedal, the minister of local government and labour, was its most prominent spokesperson. In February 1984, he wrote a personal memo about the Statoil reform to Willoch in which he accepted the idea of direct state holdings but asked that the plan was not given retroactive effect. In practice, that would mean Statoil retaining its interests in Statfjord, Heimdal and Gullfaks.

The internal splits in the Conservative Party, expressed particularly through the deep scepticism of the "west coast" wing, were not only a reflection of a geographical dimension and associations with Stavanger and Statoil's home base.

They also reflected divisions over ideology and principle, where the views of the strongest proponents of reform were formulated by relatively young, academically educated politicians – represented particularly by Ramm and Terje Osmundsen, prime minister

Willoch's personal secretary. Their primary concern was to slow Statoil's growth, which stemmed from a fear of power concentrations and lack of democratic control.

The more pragmatic side of the party put greater emphasis on Statoil's need for growth, financial strength and predictable operating parameters. Rettedal, Kari Thu – also from Stavanger – and Håkon Randal from the neighbouring county of Hordaland were three key politicians who pushed this view. This trio persuaded the central committee of the Conservative party in February 1984 to approve a statement which was far more moderate in tone than the reform goals expressed in the innermost government circles.

Invitation to collaborate

A short time before the Statoil reform was to be debated by the Storting, the battle lines between the parties were still sharply delineated. The government and much of the political community had written off opportunities to achieve a collective solution.

This was the position when the Labour Party wrote to Willoch on 12 March 1984 with an invitation to collaborate over the question of reorganising Statoil. Labour leader Gro Harlem Brundtland and Finn Kristensen, the party's oil policy spokesperson, held a press conference after this letter had been made public. They rejected the idea that the proposed collaboration amounted to an acceptance of the Conservative intention to clip Statoil's wings. The aim was to open the way to a dialogue on the reform issue which could help to maintain the broad consensus over Norwegian oil policy.

The Statoil compromise

When Labour made its offer of negotiations, the question of reorganising Statoil's role in the Norwegian oil industry had been on the political agenda for three years. The views of the two sides had been sharply at odds and unyielding throughout this period. It was accordingly expected that the issue would end the consensus approach which had previously characterised Norwegian oil policy.

However, the invitation to discuss collaboration was well received in government circles. Willoch and the parliamentary leaders of his two coalition partners regarded it as positive with regard to the need for a long-term and stable oil policy. The Labour initiative led to four top-level political meetings on the reform.

Time was short, since the Storting was soon due to debate the issue. The four meetings were accordingly squeezed into a 14-day period. Willoch and Brundtland came across as the leading figures, but the process also involved many key politicians who had become linked to the issue along the way.

These efforts to find a shared solution to the reform issue must be viewed as extraordinary in a Norwegian context. Such a concentrated negotiating commitment over such a short time to resolve an important and controversial individual issue is a rare event.

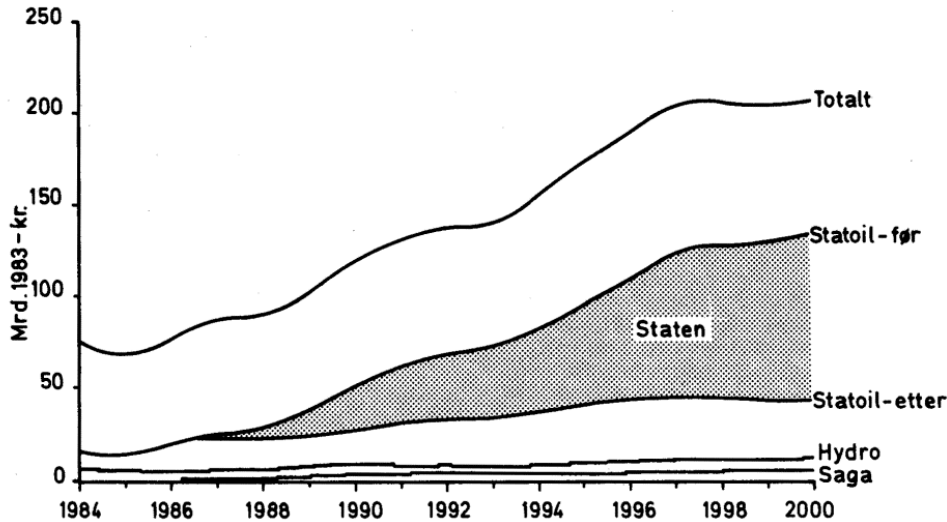
Labour had to make the biggest concessions in these "compromise talks", as they came to be called. The government was not willing to budge on the principles underlying the reform proposal.

The solution agreed was primarily the same as the Mellbye commission had proposed, but with a key exception – the Statfjord field was excluded from the new provisions. This compromise avoided the split in the Storting which had appeared inevitable.

Subsequent comments expressed astonishment at the outcome. The fact that Labour and the non-socialist government had succeeded in negotiating a joint settlement from such widely separated standpoints was hailed as a political achievement.

Two weeks later, on 8 June 1984, the Storting voted unanimously for the reform plan. The new organisational structure was to come into force on 1 January 1985.

Figur 7: Statoil's driftsinntekter. Høy prisutvikling.



This figure is taken from Report no 73 to the Storting (1983-1984) on the organisation of state participation in the petroleum industry. It shows Statoil's operating revenues before and after a possible reorganisation. It was the overall intention underlying this figure which persuaded the Storting's standing committee on energy and industry to present a unanimous recommendation on this politically complicated issue.

Culture of compromise

From a political science perspective, this outcome accords with a strong tendency in Norwegian oil policy. A distinctive feature of the way Norway has handled controversial petroleum-related issues has precisely been the ability of politicians to negotiate compromise solutions which override party political antagonisms.

The need for stability and continuity has created a political norm which exerts pressure to reach agreement on the principal direction of oil industry developments. The Statoil issue is just another example which serves to support this point.

As a result, the Statoil compromise can be interpreted as the result of a strong mutual willingness to develop shared solutions on important oil policy issues. This tendency can well be regarded as confirmation of the general culture of compromise which pervades the Norwegian political system.

However, the oil sector's significance for the country makes the pressure to achieve such solutions even stronger than in other political areas. Foreign and security policy are the only arenas where Norway's political system has displayed a similar ability to find unifying solutions to contentious national issues.

Symbolic politics

The Statoil process can also be regarded as an arena for conducting symbolic politics and opinion-forming. To the Conservatives, the reform question was a "good" issue which accorded with the party's scepticism over state capitalism and the concentration of financial power in state-owned enterprises.

Through the 1981 change of government, the Conservatives were given the opportunity to place the Statoil reform on the political agenda. The party used this opportunity to promote its views on the company's dominant position while simultaneously sparking a political debate on the issues of principle raised by state participation in the oil industry. This discussion exposed strong contradictions between Conservative and Labour views of state involvement in commercial activity and Statoil's special role as an instrument of government oil policy.

The use of the symbolic term “clipping wings” helped to sow doubts about the government’s intentions with the reform – and to sharpen antagonism between Conservatives and Labour as the two main players. This development can be attributed to a great extent to the need of these parties to exaggerate existing conflicts in order to maintain ideological and party political cleavages.



The “Statfjord effect”. Thanks to the political compromise over Statoil, this field was excluded from the reform. The financial impact of the reorganisation was thereby sharply reduced. Statfjord has been by far the most important source of revenue for Statoil throughout the period. Photo: Norwegian Petroleum Museum

The Statfjord effect

Splitting Statoil’s revenue and expense streams between company and state helped to remove a large proportion of the total oil revenues from the company and thereby moderate its expected growth. The effect desired was that Statoil would in future have to adapt its own activity to a more restricted financial base.

That expectation would have been realistic had the reform been implemented without exemptions. But Statfjord was excluded. This field had been by far the most important revenue source for Statoil throughout, and would retain that position for a long time to come. In addition, it had such low marginal costs that its financial return was relatively good even at low oil prices.

The immediate financial impact of the reform measures was accordingly sharply reduced by excluding Statfjord. Most of the other fields in which the state acquired a direct financial interest had a lower earning capacity and were more vulnerable to oil price fluctuations.

Taken together, these factors created the “Statfjord effect” – Statoil could continue to milk that field, which was cheap to operate and yielded big revenues, while the state was left with the bulk of the expenses for running the more cost-intensive development projects such as Heimdal, Oseberg and Gullfaks.

Responsibility instead of control

Excluding Statfjord and the dramatic oil price slump in 1986 placed the government in an unexpected position. The desire for better control of the oil sector’s huge revenue streams became just as much a question of increased responsibility for the expenditure side.

Cash flow to the Treasury was much smaller than expected, and the desire to limit the financial assets available to Statoil to the benefit of the state was almost turned on its head.

This demonstrates how changes in two significant preconditions for the Statoil reform – a consistent division of the cash flow from all fields and a stable oil price – had unintended consequences which were, in the short term, costly for the government and beneficial for Statoil.

Only in the long term, as the Statfjord field is moving towards cessation and the “Statfjord effect” declines, will the financial impact of the new organisational structure make itself felt more strongly.

In the short term, only the changes to the voting rules appear to have contributed to the aim of reducing Statoil’s dominant position in the Norwegian oil industry. The company has been compelled to collaborate more extensively with its partners in each licence in order to get decisions approved.

The actual reorganisation process was unquestionably regarded as a threat by Statoil. External pressure over four years created a strong internal sense of solidarity in the organisation.

At the same time, the company moved away from the open attitude which had previously characterised its relations with the outside world. That reduced the openness of communication between Statoil’s management and the government. This closed attitude also affected its interactions with other external groups, such as the media and research institutions.

An organisational milestone

The decision-making process which preceded the Statoil compromise can be regarded as a phase of great consolidation for important principles in Norwegian oil policy. Discussion and negotiations in the wake of the reform issue brought clear political dividing lines into the open. After a period of strong party political conflict, calm was once again restored over Statoil’s role in Norwegian oil policy.

Despite the repeated Conservative calls to privatise parts of the oil company’s operations, the compromise of 1984 has so far stood as an organisational milestone for state participation in the Norwegian petroleum sector. In retrospect, the intentions of the settlement have been respected by governments of various political shades.

The “Statfjord effect”. Thanks to the political compromise over Statoil, this field was excluded from the reform. The financial impact of the reorganisation was thereby sharply reduced. Statfjord has been by far the most important source of revenue for Statoil throughout the period. Photo: Norwegian Petroleum Museum

Sources:

Academic literature

Public documents

Party policy studies, polemics

Internal memos and minutes of meetings from the Mellbye commission’s work (opened to the public)

Personal in-depth interviews with 14 key players in the process

A broad range of newspaper cuttings from the 1981-84 period

This article is an abridged version of the author’s 1987 MSc dissertation:

Reorganiseringen av Statoil. Intensjon, prosess og utfall – en analyse av

beslutningsprosessen [The reorganisation of Statoil. Intentions, process and outcome – an analysis of the decision process].