The Norwegian Government Policy for Reduced and Improved State Ownership

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NÆRINGS- OG HANDELSDEPARTEMENTET

Ministry of Trade and Industry

Introduction

The Norwegian Government's new White Paper titled "Reduced and Improved State Ownership" was presented earlier this year. This Ownership White Paper discusses general issues concerning the extensive State ownership within Norwegian trade and industry, as well as measures to strengthen private ownership. It reviews the role of the State as regulatory authority and owner, and forwards proposals aimed at improving the organization and administration of State ownership. The White Paper also gives an assessment of the background for State ownership in some 40 companies. This publication summarizes the contents of the White Paper.

At its formation in the autumn of 2001 the new Coalition Government emphasized the need to examine State ownership in trade and industry, and to define the intention behind the State's ownership in each individual company.

Ownership is important to the creation of value in an economy. The globalization of markets within most industries creates demands for readjustment and restructuring. Financial strength is no longer sufficient. Competence and efficient decision-making processes are increasingly important to the positive and profitable development of companies. Private owners will on the whole be in a better position to meet these requirements than the State. Future State ownership should be limited to companies of an administrative nature, or to companies in which the ownership is clearly and transparently politically motivated.

The background for the White Paper

The Government's political platform, the "Sem Declaration", states the following on State ownership policy:

> *The State ownership interests in the Norwegian business sector are extensive, and organized in a number of different ways and with different objectives. In many cases, conflicts arise between the State's role as an owner and as a regulatory authority. At present both ownership of and regulatory authority over public companies may fall within the same ministry. In order to avoid role conflicts, all State ownership should be brought within a single ministry.*
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> *The coalition government agrees that the State should rearrange its ownership interests in the business sector and define the objective of its ownership in each individual case. Future State ownership should be limited to companies of an administrative nature and to companies where the ownership is clearly and transparently politically motivated. Such reasons could include maintaining economic activities the market would not otherwise support (particularly within areas such as infrastructure), the management of important shared resources, and R & D activities.*
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> *State enterprises should not offer products and services at market conditions, if private businesses are able*

to deliver them as well or better. Publicly owned companies often give lower return on invested capital and create less value than equivalent private companies. In most cases general interests can be maintained as well or better through legislation, changes in business conditions and the exercise of regulatory authority. Where there is no special reason for State ownership, the State should, therefore, dispose of its interests.

Several State companies would benefit from private ownership and the opportunity to acquire strategic partners. Partial privatization and stock exchange listing can therefore be appropriate.

The declaration signaled that it was the intention of the Coalition to present a new White Paper on State ownership, to present a bill to the Storting (the Norwegian Paliament) to propose authority for the Government to reduce State ownership in a number of companies, and to bring all State ownership under a single ministry.

White Paper No. 18 (1998-1999), "Companies where the State, represented by the Ministry of Trade and Industry, has ownership interests", gave an account of the development of the individual ownership interests during the period 1993-1997, in connection with four-yearly reports to the Storting. Part II of the new White Paper gives an account of companies where State ownership was managed by the Ministry of Trade and Industry in the 1998-2001 period. Since the Ministry of Trade and Industry is to play a co-ordinating role in the administration of the Government's ownership policy, similar accounts have now been given of companies where State ownership is managed by other ministries.

Summary

Ownership and value creation

In order to support the Norwegian welfare state, it is important that the business sector is owned and managed in such a way as to contribute to the country's overall value creation. State ownership of commercial activities is thus not a goal in itself. State ownership in the business sector must also be considered from the perspective of power and democracy. One of the Government's objectives is to prevent unnecessary concentration of power, including that of ownership power.

Several studies both within Norway and abroad show that experiences with State-owned companies are mixed. A number of studies highlight possible conflicts between distribution policies and business economics, which can in principle easily appear when the State is engaged in commercial activity. The Government's work on institutional roles focuses on enhancing the clarity of and increasing the distance between the State's role as an owner on one hand and the State's role as regulatory authority on the other.

Neither research nor experience yields clear answers as to which type of owner will best ensure long-term profitability and competitiveness. However, there seem to be reasons for maintaining that a wide diversity, with several different owners, creates a good environment for high value creation through an active market in ownership stakes.

It also seems to be well documented that active corporate governance has a positive effect on profitability. Good corporate governance requires a combination of capital and expertise. There seem to be reasons for maintaining that direct owners generally make a greater contribution to efficient ownership and thus to greater profitability.

The need for change and restructuring in companies, including measures that require the active involvement of the owners, is growing in line with the rapid development towards increasingly global markets in most industries. This means that a good owner not only needs competence and capital, but also the ability to make rapid decisions.

Private owners will generally be in a better position to meet the requirements for good ownership than the State will be. The Government is, in principle, of the opinion that the State should only own business activities where such ownership can act as an instrument to achieve particular and stated targets, or where such ownership is a sensible investment of the State's savings, taking into consideration return and risk. The State's overall management of its funds has not been a topic for discussion in the White Paper, which has focused on the State's direct ownership in individual enterprises.

This background has helped shape the Government's position that action should be taken to strengthen private ownership, and that the State's extensive ownership in Norwegian business should be reduced. Norway must also attract overseas investment. The industrial development of the State-owned companies and the protection of the value of State's assets must be considered when planning the timing and format of reducing State ownership.

The conditions for private ownership in Norway

Around three quarters of all Norwegian savings are controlled by the State. In an international context, Norway has traditionally had few and small private owners. This is true for both institutional and private investors. The Norwegian-owned capital available for capital market purposes is limited for both primary and secondary trading purposes. The public ownership share of companies listed on the Oslo Stock Exchange was just below 40 percent at the end of January 2002.

In order to strengthen private ownership in Norway, it is of prime importance that financial and industrial policies provide good, predictable conditions for companies.

Certain factors will be of particular significance for the development of private ownership in Norway, primarily with regards to taxation policies. Given that financial capital is mobile, predictability and competitive tax regulations will affect the amount of capital available for investment purposes in any given country or region. Such priorities have to be balanced against a number of other considerations that the tax system is intended to safeguard, such as the distribution of income and wealth. The Government has appointed a committee to consider changes in income and wealth taxation. Arne Skauge is the chairman of the committee, which is due to submit its recommendations at the end of 2002. The Skauge Committee has particularly been asked to consider the possibility of reducing the difference in tax-rates between wage income and financial income. Changes in wealth taxation will be considered in connection with the general review of the tax regulations. Efficient utilization of resources, distribution and simplicity will be key considerations when drafting new tax regulations. The committee has also been asked to focus on the international perspective, and to consider whether the Norwegian tax system sufficiently accommodates the movement of capital as well as labor, across national borders. The Sem Declaration states that Norwegian ownership must be strengthened through a reduction of the wealth tax. The Government will pursue this goal in the future.

Increasing the inflow of capital to Norwegian companies and innovation projects is one of the main challenges. Greater access to Norwegian risk capital and a better functioning capital market are decisive factors in order to enable the Norwegian business sector to utilize new ideas and business opportunities. The Government will create improved conditions for increased private savings. This is an important instrument in the establishment of new enterprises, and will increase private ownership in the business sector. One possible measure could be to transfer responsibility for some of the pensions savings from the National Insurance to private pension funds. The Pension Commission under the leadership of Sigbjørn Johnsen is considering alternative methods for the funding of pensions payments. The Government will submit proposals on these issues to the Storting.

The State as regulatory authority and as an owner

The State has several tasks and roles. It is therefore important that the State separates its different roles, to ensure its legitimacy whether it acts as owner, policy maker or regulatory authority. The State must act professionally as an owner, in relation to co-investors and lenders. As regulatory authority and control body, the State must act independently of its possible ownership role.

It should be clear that the State, as owner of an enterprise that competes with others, shall not favor its own enterprises through its role as policy maker, inspector or regulatory authority.

There are, however, policy areas where the State can most effectively achieve its objectives through ownership. In such areas State ownership functions as an instrument within that particular sector. A well-known example of this is State ownership of AS Vinmonopolet (the national wine and liquor monopoly).

There may be reasons for State ownership also where ownership in itself is not a sector policy instrument. One example is when trying to ensure that the superprofits associated with the harvesting of natural resources are channeled back to society as a whole. Ownership, alone or as part of an overall arrangement, can be an appropriate instrument for achieving this goal. Another example is helping to keep key centers of knowledge, such as head office functions and R & D centers, in Norway. A third example is considerations related to national security.

It must always be considered whether means other than ownership, such as purchase of services or regulatory efforts, can be more effective. When other means are available, the ownership role can be followed up on pure business management terms, similar to those concerns which would be held by a private owner.

The Government has undertaken a wide-sweeping review of companies that are wholly or partially owned by the State, with the exception of companies that are owned indirectly through the Petroleum Fund, the National Insurance, the Norwegian Industrial and Regional Development Fund (SND) and the Industrial Development Corporation of Norway (SIVA), etc. The review considered whether there remained good reasons for the State to continue as owner. State enterprises should not offer products or services on market terms if private companies are able to do so as well or better. In those cases where there is no good reason for continued State ownership, the State should reduce its ownership interest or completely privatize the operation. In all important areas where State-owned companies compete with private companies, the State shall pay particular attention to ensuring correct and proper behavior in its role as owner and shareholder.

The management of the company must be organized in such a way that questions are not raised as to whether the State's different roles have been intermingled. This furthermore means that the State must exercise its ownership role on the basis of generally accepted principles for corporate governance. Both the companies in question and the State as owner must earn the confidence of the market participants. This also ensures that the individual company's development takes place on a sound basis, and should thus also positively influence the value of the State's assets.

Reduced State ownership

It is the Government's view that private ownership of business activities maximizes value creation. This form of ownership should therefore be strengthened in Norway. Since State ownership in industry is large , both in relative and absolute terms in relation to comparable countries, there are particular reasons for reducing State ownership in Norway. One such reason is that it is probable that reduced State ownership would promote a renewal of Norway's somewhat small and open economy. In most cases general interests can be maintained as well or better through legislation, changes in business conditions and the exercise of regulatory authority. Where there are no particular reasons for State ownership, the State should dispose of its interests.

The reasons behind and the need for State ownership will change over time. The communications sector, for instance, illustrates an industry which started as a public body in many countries, but has now been converted to an industry of regular, commercial companies. Other examples can be found in the defense industry, where activities were traditionally far more closely linked to issues of national defense and security policy. The State should therefore re-examine its need to retain ownership interests on an on-going basis.

It is important to distinguish between the Government's policy stand on reducing State ownership in a company on the one hand, and the timing, form and execution of a possible reduction in its ownership on the other. The Government will aim to secure that a reduction in State ownership takes place in a way which protects shareholder value, and at the same time contributes positively to the industrial development of the company in question. For some companies it may be better to sell the State's interests to one or more industrial owners. For other companies a better solution may be to reduce State ownership through mergers or acquisitions. In other companies again, it may be appropriate to sell shares on the stock exchange.

The White Paper's review of individual companies shows that several of the large enterprises which are currently subject to State ownership for reasons of sector policy, are in a process which increasingly brings them into competition with private enterprises. This applies for example to the Post Office (Posten BA), the Norwegian State Railways (NSB BA) and the Broadcasting Corporation (NRK). The Government's approach to such cases will be to ensure that the State's management of companies does not distort competition between publicly and privately owned companies competing in the same industry. This requires continuous reassessment of such companies, as industries and markets develop over time.

Better organization and management of State ownership

Relationship to the Norwegian Parliament

In accordance with the Constitution § 19, the King (Government) is the administrator of the State's property. Decisions that will significantly alter the State's involvement must, however, be taken by the Storting. Such decisions include those measures that require appropriations or budget approval , such as share purchases, sale of shares owned by the State and several other types of transactions.

Administration of ownership in individual companies

The Government will continue the work that has begun on sorting out the ownership and regulatory role. A clear division will give the State greater legitimacy in the exercise of its various roles. This will also form the basis for a more comprehensive State ownership policy. Based on a broad review of companies that are fully or partially owned by the State, the Govermnment will continue its work to bring all the State's ownership interests under the Ministry of Trade and Industry.The question of transferring the administration of companies that at present have significant sectoral policy objectives and tasks will be further considered. Important considerations are of developments in these companies and their markets, the the issue of whether State ownership continues to be an important sector policy instrument.

Other management models outside of the ministries

The White Paper discusses whether it would be appropriate to transfer the management of all, or parts of the State's ownership, to one or several management companies outside the Ministry. The Government will, in any case, retain constitutional responsibility to the Storting for the management of these assets. Following a total assessment of this question, the Government decided not to propose a transfer of the exercise of State ownership, that is today the responsibility of the ministries, to a separate management body.

Corporate Governance

Even with reduced State ownership in certain companies, the State will still be a considerable owner and shareholder in the foreseeable future. The State may continue to dominate the ownership of companies listed on the Oslo Stock Exchange for some time. The way in which the State exercises its ownership affects the value of those assets held by the State and others. If State-owned companies are priced low, this may contribute to lower relative prices for Norwegian stocks, That will increase equity costs for Norwegian companies and make investments in Norwegian industry less attractive.

It is important that the State is perceived as predictable in the capital markets. The White Paper therefore directs considerable focus to highlighting the principles and guidelines the State will follow in the exercise of its ownership, or Corporate Governance. The objective of these principles is to promote efficient and responsible exercise of ownership.

A considerable amount of work has been dedicated to identify good corporate governance principles. The Government has identified the following ten main principles on which the State's ownership in individual companies should be based:

1. All shareholders shall be treated equally.
2. There shall be transparency in the State's ownership of companies.
3. Ownership decisions and resolutions shall be made at the general meeting.
4. The State may set performance targets for each company, together with other owners. The board will be responsible for meeting these targets.
5. The capital structure of the company shall be consistent with the objective of the ownership and the company's situation.
6. The composition of the board shall be characterised by competence, capacity and diversity and shall reflect the distinctive characteristics of each company.
7. Compensations and incentive systems shall promote the creation of value in the companies and shall be generally regarded as reasonable.
8. The board shall exercise an independent control of the company's management on behalf of the owners.
9. The board shall adopt a plan for its own work and shall work actively with development of its own competence. The board's activities shall be assessed.
10. The company shall recognise its responsibility to all shareholders and stakeholders in the company.

State ownership interests in individual companies

Part II of the White Paper examines the State ownership of individual companies. Each company is described and the background for State ownership is discussed. State ownership is assessed in each case. These assessments also consider whether the reasons behind State ownership are still relevant or whether the Government should take steps to change the current ownership situation.

The Government concludes that State ownership should be reduced in a number of individual companies. No proposals have been finally presented to the Storting (the Norwegian Parliament). This will be done later on the basis of the Storting's debate on this White Paper.

The Government is of the opinion that changes in the State's shareholdings must take place in a way which retains share values, and at the same time contributes to a positive development for the companies involved. This means, among other issues, that the timing, method and execution of an intended reduction in an ownerwship stake will have to be planned carefully. Several alternatives may be considered; a sale to one or more industrial or strategic owners, reduction of the State's shareholding as part of mergers, acquisitions or new capital issues, or a regular sale of shares on the Stock Exchange.

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