

3 State organisation of petroleum operations

Ministry of Petroleum and Energy

Ministry of Labour and Government Administration

Norwegian Petroleum Directorate

State participation

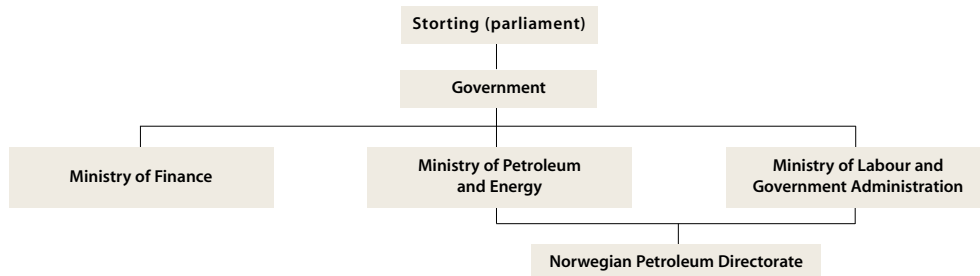


Figure 3.1 The state organisation of petroleum operations.

The Storting (parliament) determines the framework for petroleum operations in Norway. Major development projects or issues of principle must be considered and approved by the Storting. Authority has been delegated to the King in Council to approve development projects with an estimated cost of less than NOK 10 bn.

Overall administrative responsibility for petroleum operations on the NCS rests with the Ministry of Petroleum and Energy (MPE). Its job is to ensure that these operations are pursued in accordance with the guidelines laid down by the Storting.

Ministry of Petroleum and Energy

The MPE is organised in four departments, covering E&P and market, petroleum, energy and water resources, and administration, budgets and accounting respectively.

Responsibility for petroleum operations rests with the E&P and market and petroleum departments.

The E&P and market department is organised as follows:

Oil section

Covers issues relating to development, operation and transport for oil fields as well as marketing of oil and NGL. Responsible for emergency response planning in the petroleum sector. Provides the secretariat for the Petroleum Price Board, which deals with tax settlement prices.

Gas section

Responsible for issues relating to development, operation and transport for gas fields, including exercising the owner's role in relation to Gassco AS, as well as marketing of natural gas. Also responsible for coordinating allocation issues.

Exploration section

Coordinates the preparation and implementation of exploration policies, such as the opening of new offshore areas and licence awards, and supervises exploration operations.

The petroleum department is organised as follows:

Environmental affairs section

Responsible for coordinating the department's work on environmental issues, including climate questions. Also in charge of the MPE's work with international agreements on emissions to the air.

Industry section

Deals with issues relating to the petroleum supplies industry. The section also handles the MPE's efforts to extend the internationalisation of Norway's oil and gas sector and questions related to research and development.

Section for state participation

Responsible for exercising the owner's role in relation to the state's shareholding in Statoil ASA, the state's direct financial interest (SDFI), Petoro AS and the state's petroleum insurance fund.

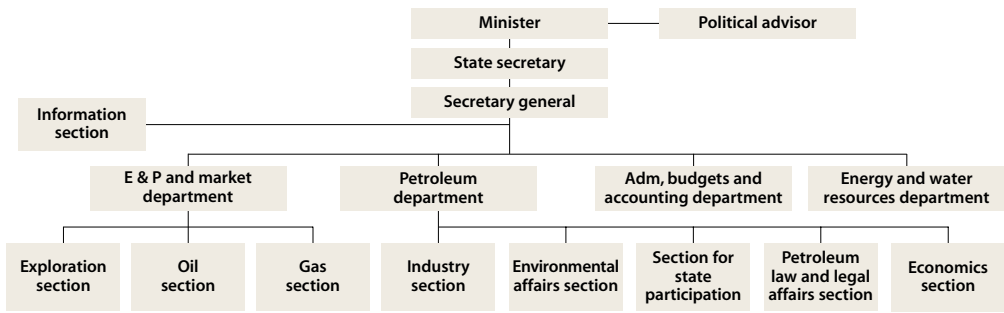


Figure 3.2 The organisation of the MPE.

Economics section

Carries out economic analyses of the petroleum sector to support the preparation of government policies, including the department's work with the petroleum tax system and the state's total revenues from this sector.

Petroleum law and legal affairs section

Deals with all legal issues, such as preparing Bills and regulations and other legal frameworks. Also responsible for providing advice in all legal areas relevant to the MPE's work in the petroleum sector.

Energy and water resources department

This department is responsible for land-based energy generation, administration of watercourses and energy consumption. It covers such matters as legislation governing watercourses, licensing and energy, commercial supervision of Statnett SF, coordination of international energy cooperation, and schemes for enhancing energy saving and efficiency. Issues relating to energy and the environment also come under this department.

Administration, budgets and accounting department

The MPE's administrative and common functions are handled by this department, including organisation and personnel administration as well as the budget and financial administration of the MPE and its subordinate agencies.

Ministry of Labour and Government Administration

This ministry has overall responsibility for the working environment in the petroleum sector, as well as for emergency response and safety aspects of the industry.

Norwegian Petroleum Directorate

The Storting resolved on 2 June 1972 to establish a Norwegian Petroleum Directorate (NPD) in Stavanger. This agency is administratively subordinate to the MPE. On issues relating to the working environment, safety and emergency response, however, the NPD reports to the Ministry of Labour and Government Administration.

Primary functions of the NPD are:

- to exercise administrative and financial control to ensure that exploration for and production of petroleum are carried out in accordance with legislation, regulations, decisions, licensing terms and so forth
- to ensure that exploration for and production of petroleum are pursued at all times in accordance with the guidelines laid down by the MPE
- to advise the MPE on issues relating to exploration for and production of submarine natural resources

The NPD is headquartered in Stavanger, and has a branch office in the north Norwegian port of Harstad.

State participation

Norway's oil and gas resources belong to the Norwegian community and must be managed for the maximum benefit of present and future generations. An overall objective of government oil and gas policy is accordingly to ensure that the largest possible share of value creation from petroleum operations accrues to the community.

State's direct financial interest (SDFI)

The state's direct financial interest (SDFI) in the petroleum sector was established with effect from 1 January 1985, when most of Statoil's licence interests on the NCS were split into a direct financial component for the state (the SDFI) and a component for the company.

This arrangement is a field-specific instrument in that the interest is adapted to the profitability and resource potential of each production licence.

From 1985 until the 14th licensing round in 1993, the SDFI received a holding in each production licence awarded. It received interests in 16 of the 18 licences awarded under the 15th licensing round in 1996, and eight of 14 (included two supplementary awards) allocated in the 16th round. This reflects the resource potential and expected profitability in the respective rounds at the point when the awards were made. See chapter 5 for more information on the SDFI.

In 2001, the Storting resolved to restructure state participation in the petroleum sector. This included the sale of SDFI assets corresponding to 15 per cent of the portfolio's value to Statoil. The sale of a further 6.5 per cent to companies other

than Statoil was completed during March 2002.

Statoil ASA

The Storting resolved on 2 June 1972 to establish a state-owned oil company. Statoil's objective is, either by itself or through participation in or together with other companies, to carry out exploration, production, transport, refining and marketing of petroleum and petroleum-derived products, as well as other business.

Statoil was partially privatised and listed on the Oslo and New York stock exchanges on 18 June 2001, with 18.2 per cent of the company sold to private shareholders in Norway and abroad. The state thereby owned 81.8 per cent of the company's shares at 1 January 2002. The Storting has opened for further reductions in the state's shareholding, down to two-thirds.

Partial privatisation of Statoil has involved changes in the state's role and decision-making authority towards the company. The provisions of the Public Limited Companies Act apply in full, and the special rules governing state-owned limited companies are no longer relevant. As the majority shareholder, however, the government retains great influence – not least in relation to the company's articles of association.

The government, through the MPE, wishes to act as a professional owner in line with the other shareholders. The prospectus for Statoil's initial public offering stated that the government has indicated that it – as one of many shareholders – will concentrate on issues relating to the return on capital and dividend, with the emphasis on long-term development of profitable operations and

value creation for all the shareholders.

Statoil will continue to be responsible for marketing the state's directly-owned oil and gas.

Petoro AS

Statoil previously provided commercial management for the SDFI. This arrangement reflected Statoil's status as a wholly state-owned limited company, which gave the government opportunities for management and control of the SDFI in accordance with constitutional requirements for managing state property and organising commercial state operations.

Partial privatisation of Statoil meant that the organisation of the SDFI had to be amended. The Storting accordingly added a new chapter 11 to the Petroleum Act. This specified the main features of the management system for the SDFI and formed the basis for creating Petoro AS to manage the SDFI.

Established on 9 May 2001, Petoro is organised as a wholly state-owned limited company and based in Stavanger. Due to have about 60 employees, it has three duties:

1. managing the state's interests in partnerships where such interests are held at any given time
2. monitoring Statoil's sale of petroleum produced for the SDFI
3. keeping accounts for the SDFI

The company's operations are confined to the NCS, and it will have no offshore interests of its own. It will not apply for new production licences or

be awarded operatorships. It cannot sell, swap or buy licence interests, but can advise on such transactions. Its duties will be confined to managing the SDFI.

Petoro will be financed by appropriations from the government, and will not receive revenues from the SDFI's assets. These assets will be managed on the government's account. As before, income and expenditure relating to the SDFI will be carried on the central government budget.

Gassco AS

In connection with the partial privatisation of Statoil, the Storting resolved to create a separate company for transport of natural gas. Gassco AS was established on 14 May 2001.

The government's objective in creating Gassco are that:

- gas transport and treatment facilities will serve all producers and contribute to efficient overall utilisation of resources on the NCS
- this company for the gas transport systems will act neutrally in relation to all users of this infrastructure
- this company will play a key role in further development of the transport systems

Gassco took over as operator on 1 January 2002, and is based at Bygnes in Karmøy local authority north of Stavanger. The company is wholly state-owned.

