Oil and gas extraction and economic rent – the case of Norway

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LNM suggest:

- Close the government Pension Fund Global (GPFG) in Norway, which stood at USD 25.000 per citizen as of Dec. 31st 2021
- Establish Oil Fund 2.0 based on *future cash flow from oil and gas extraction*, to help fund "the Green Transition" in poor countries

The Paris Agreement

Bloody unfair the whole Paris agreement: *Accumulated CO_2 is what counts*

2.400 gigaton CO_2 emitted since the industrial revolution.
Only 400 gigaton more to avoid a climate crisis.

The rich countries are availing themselves of storage facilities of the poor ones, free of charge

Are there fossil fuels in the North Sea?

In 1962 three geologists from Phillips Petroleum Company asked for permission to start seismic explorations of the North Sea.

Any oil and gas to be found down there?

They were referred to Jens Evensen, Director General in the State Department. Tall order – complete lack of knowledge of the issues at hand

Educating Jens Evensen

The oil companies must educate me and my assistant, Leif Terje Løddesøl, Evensen made crystal clear. “We must understand the issues as well as you do”.

No concessions for drilling on the table before that is the case.

Incentives in place for the oil companies to oblige.

Seeing for himself is part of the education.

“At times I felt that no living man had visited more platforms than me”.

Securing ownership and keep accumulating new knowledge

May 1963 – Royal Decree: Oil and gas found in the North Sea belong to the government

March 1965 – Norway and the UK agree on “midline” principle in North Sea

1965 – Detailed rules on concessions are established, by Royal Decree, and oil companies are invited to apply for concessions

ARNE JON ISACHSEN –April 2020

“Hurry slowly” and learn from experience.
Accumulate competence, oil well by oil well.

About 80 per cent of economic rent into government coffers.
Marginal tax rate for oil production about 75 per cent

What is reasonable?

Is the “midline principle” set in stone?

No. Germany argued against it.
What is reasonable should also count.

Haag decides, and Germany’s view is partly vindicated.

What is reasonable?

Government Pension Fund Global at 12.340 billion NOK as of December 31st 2021.
Accumulated super profit over more than five decades.

Twice Sweden's GDP

Three times Norway's GDP.

Say that the Oil Fund was Icelandic. Would amount to sixty times its GDP.
Translates into 34 million NOK per person.

Based on three percent in real return and more than one million NOK annually to spend per person.

Would that be reasonable?

Ethical concerns

Ethical council advises NBIM on excluding companies with unethical behavior.
Active ownership based on ESG-criteria in companies NBIM are invested in.

But ethical concerns also have to do with how the oil money is spent.

Let the government's share of future super profits (or economic rents) from oil and gas extraction be channeled into Oil Fund 2.0, as LNM suggest.

Ethical concerns

Oil extraction in Norway would contribute to achieving the Paris Agreement through this mechanism. And Norway may continue to produce oil and gas.

Remember, the Norwegian government can keep spending about 70.000 NOK annually per inhabitant without taxation – namely three percent of the Oil Fund 1.0.

Remember also that Norway has produced (or extracted) 29 billion barrels of oil.
Contributed to CO_2 in the atmosphere – **way beyond what we have “burned”**

The challenges ahead

The challenges that Oil Fund 2.0 would meet would be no less demanding than those that Jens Evensen met some six decades ago after talking with three foreign geologists who fancied there might be oil and gas in the North Sea.