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State organisation of petroleum operations

Ministry of Petroleum and Energy

Ministry of Local Government and Regional Development

Norwegian Petroleum Directorate

State's direct financial interest (SDFI)

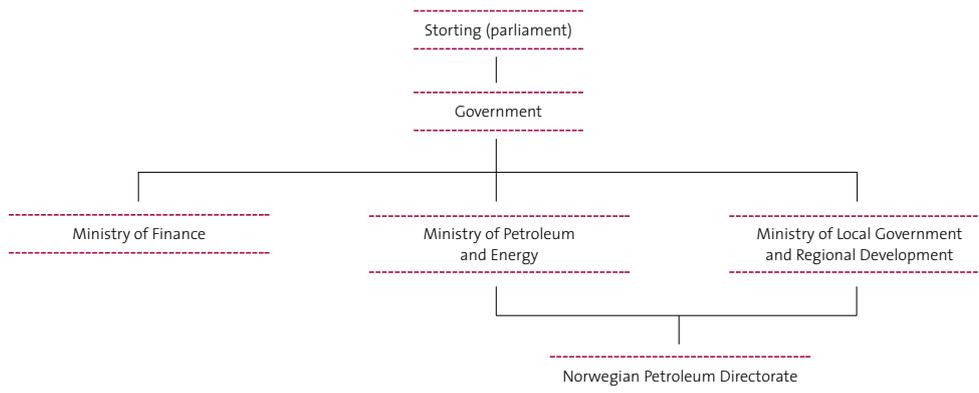


Figure 3.1 The state organisation of petroleum operations.

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 government to approve smaller development projects.

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 three departments, covering oil and gas, energy and water resources, and administration, budgets and accounting respectively.

Responsibility for petroleum operations rests with the oil and gas department.

THE OIL AND GAS 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 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.

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 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 Statoil and for supervising the state's direct financial interest (SDFI).

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 the state-owned Statnett SF and Statkraft SF power enterprises, coordination of international energy co-operation, 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 LOCAL GOVERNMENT AND REGIONAL DEVELOPMENT

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. This responsibility will be transferred during the spring of 2001 to the Ministry of Labour and Public Administration.

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 Local Government and Regional Development (Ministry of Labour and Public Administration from the spring of 2001).

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'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.

However, establishing the SDFI did not affect operational aspects. Statoil manages the arrangement and also sells all the petroleum accruing to the SDFI.

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

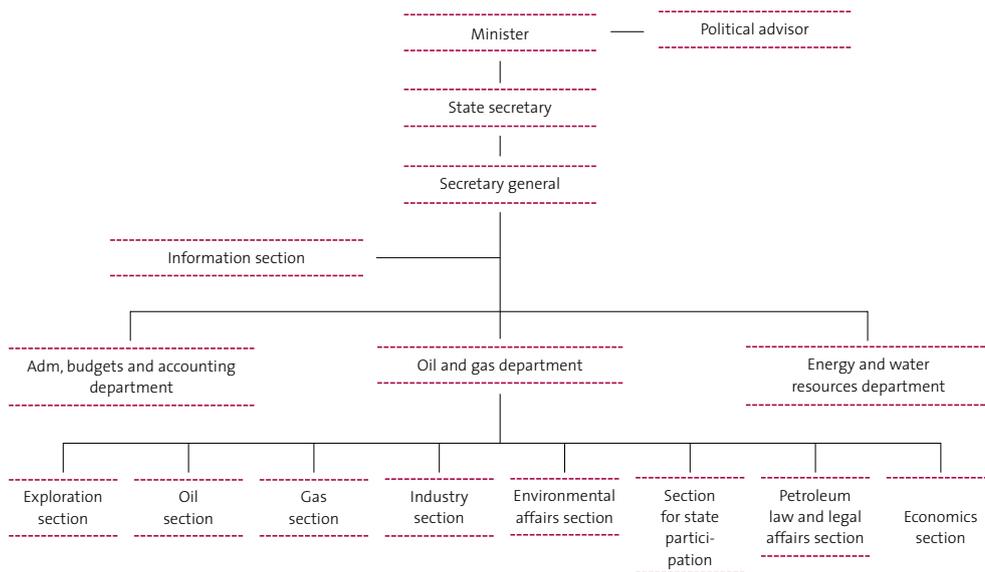


Figure 3.2 The organisation of the MPE.

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.

Statoil (Den norske stats oljeselskap a.s)

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. Wholly state-owned, the company operates on a commercial basis.

Changes in state participation

Norway's oil and gas resources belong to the Norwegian community and must be managed for the benefit of present and future generations.

An overall objective for the government's oil and gas policy is accordingly to ensure that the largest possible share of value creation from petroleum operations accrues to the community.

Changes in markets and competitive conditions in the oil and gas industry call for adjustments to achieve this goal and to continue safeguarding employment, high value creation and a strong Norwegian oil and gas industry. For this reason, the government presented proposals on 15 December 2000 for an improved organisation of state ownership of oil and gas resources. See Storting proposition no 36 (2000-2001) Ownership of Statoil and future management of the SDFI.

The government presented four main proposals in this document:

1. Bring new owners into Statoil by listing the company on the stock market.
2. Sell SDFI assets corresponding to 20 per cent of their total value to Statoil, Norsk Hydro and others.
3. Establish a new state-owned limited company to manage the retained SDFI portfolio in production licences, pipelines and land-based facilities.
4. Establish a new state-owned limited company for transport of natural gas on the NCS.