ABSTRACT: The aim of the article is to discuss the Norwegian Model of hydrocarbon management and its impact on building a just and equal society. Since 1972, the model has been based on the separation of policy, commercial, and regulatory functions. Within each area there is state-controlled institution with its own distinct role. This model of separation of duties is however combined with other unique features which cannot be easily copied by other counties. These include a long tradition and high level of democratic co-operation, inter-governmental checks and balances, socio-democratic traditions of strong public involvement, mature institutional capacity (mainly a competent bureaucracy) and highly developed model of co-operation between government, business and research institutions.

KEYWORDS: Norway, oil and gas sector, management

Introduction

The Norwegian Model of government administration of the petroleum sector since 1972 has been based on a separation of policy, commercial, and regulatory functions. Within each area there are state-controlled institutions with their own distinct roles. The Ministry of Petroleum and Energy is a policy-making body working with the political leadership on setting goals for the sector, making assumptions for the realization of these goals and framing the licensing process. Commercial functions are ceded to the partly

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state-owned company Statoil which carries out operations both in Norway and oversees. All regulatory and technical guidelines are within the competences of the Norwegian Petroleum Directorate with a wide range of duties from setting regulations related to resource management, collecting fees from oil operators and compiling data on all hydrocarbon activities on the Norwegian Continental Shelf.

This model of separation of duties is however combined with other unique features which cannot be easily copied by other counties. These include a long tradition and high level of democratic competition, inter-governmental checks and balances, socio-democratic traditions of strong public involvement in sectors considered to be of strategic importance to the country, mature institutional capacity (mainly a competent bureaucracy) and a highly developed model of co-operation between government, business and research institutions. Taking into account all of these features, the aim of the article is to discuss the Norwegian Model of hydrocarbon management with the main assumption of its uniqueness and distinctiveness from other countries.

The hypothesizes are:
- the model of state management of the petroleum sector in Norway is highly efficient;
- the success of the sector lies in socio-political conditions and properly designed administration model;
- continuity and predictability of the sector results in social and political trust.

**Norwegian petroleum history**

The history of the Norwegian petroleum sector can unquestionably be called a “success story”. It started in the early 1960s of the twentieth century, when the new found optimism regarding the North Sea’s petroleum potential was initiated by the gas discovery in Groningen in the Netherlands in 1959. In October 1962, Philips Petroleum sent an offer to the Norwegian authorities, to explore oil in the Norwegian continental shelf which in the long run was an attempt to acquire exclusive rights. The Norwegian government refused to sign over the entire shelf to a single company due to the threat of monopolization.

In May 1963, the Government proclaimed sovereignty over the Norwegian continental shelf. The State was the sole landowner, and
only the King (Government) could grant licences for exploration and production. Final agreements with Denmark and the UK to delineate the continental shelf were signed in March 1965 on the basis of the equidistance principle. On 13 April 1965 the first licensing round was announced and 22 production licenses were awarded, covering 78 blocks (Norwegian Petroleum Directorate b, 10).

With the discovery of Ekofisk, 1969 can be considered the start of the petroleum era in Norway which has not experienced any impediments till now. Production from the field started in 1971, and several large discoveries were made in the following years. The exploration started in the North Sea and has gradually moved north as knowledge and capabilities have increased. In 1979, the government decided to open up petroleum activity in the area to the north of the 62nd parallel with exploration was gradually initiated. In the early 1980s, exploration in parts of the Norwegian Sea and Barents Sea began and expanded northwards.

From the very beginning the authorities limited the number of blocks in each licensing round, and the most promising areas were explored first. This led to immense discoveries in large fields such as Ekofisk, Statfjord, Oseberg, Gullfaks and Troll. With growing production in these fields as well as an adequate infrastructure enabling a tie-in of a number of other fields, exports to West European countries developed. Gas pipelines exported hydrocarbons to Belgium, France Germany, and Great Britain. In 1993, production began in the Norwegian Sea, and in 2007 it commenced in the Barents Sea (Norwegian Petroleum Directorate b, 10).

According to the Norwegian Petroleum Directorate, for the last 50 years of exploitation about 47% of the estimated total recoverable resources have been used. In 2015, Norway produced 227.8 Sm³ o.e.¹ of marketable petroleum, which was about 14% lower than in the record year 2004 but 5% higher than in 2014. Oil production since 2001 has been in a steady decline but gas production continues to grow. Gas sales totaled 115 billion Sm³ (40 MJ) in 2015, a new record which illustrated the demand for natural gas in many parts of Europe. In 2015, gas accounted for just over 50% of total production of oil equivalents. Norwegian estimations show that the high level of production will be sustained during the next decades but it still needs to be underlined that the country reached

¹ Standard cubic meters oil equivalents.
peak production in 2004 with more than 260 million of m$^3$ of oil equivalent (Norwegian Petroleum Directorate a).

Table 1. Historical And Expected Production in Norway, 1971–2021

Source: The Norwegian Petroleum Directorate a

Legal and regulatory framework

The role of petroleum revenues for the last five decades has been strategic for the country mainly due to the sound policies of parties representing different ideological orientations. The whole management of the sector is based on the simple principle to provide a framework for the profitable production of hydrocarbons in the long term. It means that none of the political elites is eligible to rapidly increase production aimed at direct revenues to the state budget.

The basic principle is direct state control of the whole sector and all laws and regulations aim at giving the state a superior and stable position in relation to both private and international players. The Norwegian legal framework around the petroleum sector consists of two laws: the petroleum law, and the petroleum tax law.

Surprisingly, the general principles, dubbed “The 10 Oil Commandments”, which underpin the Norwegian oil policy date back to June 14, 1971 when the Standing Committee on Industry submitted a white paper from Norwegian Ministry of Petroleum and Energy in the Storting (the Norwegian Parliament). This was a clear
clarification of what was needed to ensure that the oil activities would “benefit the entire nation”.

Table 2. “The 10 Oil Commandments”

| 1. That national supervision and control of all activity on the Norwegian continental shelf must be ensured. |
| 2. That the petroleum discoveries must be exploited in a manner designed to ensure maximum independence for Norway in terms of reliance on others for the supply of crude oil. |
| 3. That new business activity must be developed, based on petroleum. |
| 4. That the development of an oil industry must take place with the necessary consideration for existing commercial activity, as well as for the protection of nature and the environment. |
| 5. That flaring of exploitable gas on the Norwegian continental shelf must only be allowed in limited test periods. |
| 6. That petroleum from the Norwegian continental shelf must, as a main rule, be landed in Norway, with the exception of special cases in which socio-political considerations warrant a different solution. |
| 7. That the State involves itself at all reasonable levels, contributes to coordinating Norwegian interests within the Norwegian petroleum industry, and to developing an integrated Norwegian oil community with both national and international objectives. |
| 8. That a state-owned oil company be established to safeguard the State’s commercial interests, and to pursue expedient co-operation with domestic and foreign oil stakeholders. |
| 9. That an activity plan must be adopted for the area north of the 62nd parallel which satisfies the unique socio-political factors associated with that part of the country. |
| 10. That Norwegian petroleum discoveries could present new tasks to Norway’s foreign policy. |

Source: Norwegian Ministry of Petroleum and Energy

Basically, at all stages of production (exploration, development and operations) the greatest possible value for society must be generated. Moreover, the revenues should not only benefit the State but Norwegian society as a whole. Aspects such as health & safety procedures, working environment requirements and environmental concerns must be taken into account throughout the industry. The petroleum sector also correlates it’s activities with other sectors in order to avoid the Dutch disease2.

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2 Dutch disease – an increase in the economic development of a specific sector (for example natural resources), which causes decline in other sectors (like the manufacturing sector or agriculture).
The state has also decided that the best commercial effects in the petroleum sector can be achieved with a mix of public and private activities with sustained strong state ownership. This model has dominated since the mid-1980s when the conservative prime minister Kåre Willoch decided to ease state control over the sector. The state is responsible for setting a clear and predictable regulatory framework and oil companies and other actors carry the responsibility of exploration, development and production of oil and gas. The aim of this shared system is to find a possible balance between the state’s (society) interest and that of commercial actors.

It is the State that has the proprietary right to offshore petroleum deposits on the Norwegian continental shelf. Initially, the State had a 50 per cent ownership interest in each production license, however in 1993, this principle was altered, and now in each individual case an assessment is made as to whether the State will participate and to what extent. The main tool to achieve revenues from the sector is tax policy and regular institutional oversight of resource management. The current ordinary tax rate that companies are subject to (not on oil and gas fields) is 25%, which aims at ensuring value creation for society. In 2015 alone, tax revenues from petroleum activities were about NOK 104 billion (Norwegian Petroleum Directorate c).

The petroleum companies are obliged to obtain official approvals and permits for all phases of the petroleum activities (award of exploration and production licenses, acquisition of seismic data and exploration drilling, development and operation, and plans for field cessation).

The Petroleum Act of 29 November 1996 gives the general legal basis for the Norwegian petroleum activities, which are based on the licensing system (Act 29 November 1996 No. 72 relating to petroleum activities). Licenses are granted for the exploration, production and transport of petroleum, however the area of interest must first be opened for petroleum activities. An impact assessment of the Ministry of Petroleum and Energy includes factors such as environmental, financial, and social impacts (Act 29 November 1996 No. 72 relating to petroleum activities, Chapter 3). Each year, the Norwegian Government opens a licensing round – a certain number of blocks for which production licenses are available. The criteria for procurement are announced, non-discriminatory, objective, and relevant. It is important to stress that a license grants companies exclusive rights to surveys, exploration drilling and
production of petroleum within the covered geographical area and that the petroleum that is produced belongs to the licensee.

**Table 3.** Net Government Cash Flow from Petroleum Activities, 1971–2017

<table>
<thead>
<tr>
<th>Year</th>
<th>Statoil dividend</th>
<th>Royalties and area fees</th>
<th>Net cash flow from SDFI</th>
<th>Environmental taxes</th>
<th>Taxes</th>
<th>State net cash flow</th>
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</table>

Source: Norwegian Petroleum Directorate

Norwegian petroleum activities are also regulated by the European Union (EU) law, and the World Trade Organization agreements. The laws and directives that stem from the European Economic Area (EEA) agreement have a special position, as they are both national and international laws. The rules from the EEA have become part of Norwegian law, but are overseen by both the EFTA surveillance agency and the national courts. The most important EEA laws, apart from the general rules of the free movement of capital, persons, goods and services, require specific regulation on competition, non-discriminatory regulation, and direct state support. There are several EU/EEA directives that have had an immense impact on the Norwegian petroleum sector, notably Directive 92/22/EF 30 May 1994 that regulates the conditions for hydrocarbon exploration, the Gas Market Directive, or Directive 98/30EF, 22 June 1998 – Concerning rules for the internal market for natural gas.
Organization of the state agencies

The main body responsible for framework regulations considering the petroleum sector is the Storting. All major development projects and changes in fundamental principles are deliberated in the Storting. Moreover, the parliament uses its legislative powers to shape laws and procedures connected with all stages of production and can review the Government and public sector activities in the area. Over the course of decades, a multi-party consensus has been made over the main directions and goals of the petroleum sector, and even though the composition of the parliament changes over time, the framework for activities is stable and predictable. This political agreement creates long-lasting comfortable conditions for both national and international investors aiming to be engaged long-term on the Norwegian continental shelf.

The main body of management of the shelf lies with the government which holds executive powers over petroleum policy. Due to the rapidity of the sector’s impact both on the economy and society, the government is supported by several ministries, directorates, supervisory authorities and state-owned companies. The Ministry of Petroleum and Energy is responsible for the efficient and environment-friendly management of Norway’s energy resources through a coordinated and integrated energy policy. The ministry also manages the public’s ownership interests in state companies Gassco AS, Petoro AS, Statoil AS and the State’s Direct Financial Interest. The subordinated and advisory body of the ministry is the Norwegian Petroleum Directorate, which is responsible for direct petroleum management in the area of exploration and production on the shelf. It has a wide range of competences including adaptation of regulations and other legislative solutions. The taxation system for the petroleum sector is governed by the Ministry of Finance via the Petroleum Tax Office. The office is responsible, on the one hand, for the assessment of the government tax proposals, and, on the other, for the collection of taxes. The Ministry of Finance also controls the Government Pension Fund Global which is the state fund that internationally invests revenues from the petroleum sector. The working environment, safety, and the sector’s emergency preparedness are supervised by the Ministry of Labour and Social Affairs. The technical and operational aspects are covered by the Petroleum Safety Authority. Other ministries involved in petroleum
policies are: the Ministry of Transportation and Communications – responsible for oil spill preparedness, the Ministry of Climate and Environment – safeguarding the external environment and the Ministry of Trade, Industry and Fisheries, consulted on how the activities of the petroleum sector will influence other sectors, mainly fisheries (Norwegian Petroleum Directorate d).

**State companies responsible for the petroleum sector**

The Norwegian state has also decided that petroleum activities should be operated by state-owned enterprises, which gives controlling powers but also allows for long-term planning and investment. At the very start of petroleum activities in the early 1970s, political elites decided that the most competitive system and the highest level of competence of a young sector could be achieved by creating three Norwegian oil companies: a fully state-owned company – Statoil, one semi-private company – Norsk Hydro – and one fully private company – Saga. All were created in 1972 on the basis of political will. However, in 1999 Norsk Hydro acquired Saga Petroleum and in 2007 Statoil and Hydro were merged into one company (Olsen, 640).

The position of Statoil was initially never questioned, as from 1973 to 1985 the government awarded Statoil 50% or more of Norway’s petroleum development licenses. As Nelsen recognizes, “Few Norwegians questioned the need for the state to play a strong role in the economy, particularly in the petroleum sector, but many non-socialist politicians, and other supporters of private interests on the Norwegian shelf advocated trimming Statoil’s considerable financial and political power” (323). In the mid-1980s, due to political tensions caused by the high cash flows of Statoil, the company’s ownership was split in two, with approximately 20% retained by Statoil itself, and the rest given to the State’s Direct Financial Interest (SDFI) which is a portfolio of the Norwegian government’s directly owned exploration and production licenses for oil and natural gas on the Norwegian continental shelf. In 2001, this solution was no longer adequate as Statoil was partially privatized and so a new state-owned management company Petoro was created to manage SDFI.

Presently, Statoil remains the most influential operator on the Norwegian continental shelf, holding 60% of the total
production. The company is listed on the Oslo and New York stock exchanges with 67 per cent of the shares still belonging to the Norwegian state. It is one of the most important petroleum companies in the world with projects in around 40 countries (Gordon, Stenvoll, 30–33).

Apart from a single state company operating fields, an important element of efforts to achieve the greatest possible value from the extraction of Norwegian petroleum resources is the efficient system for transporting oil and gas from the fields. In contrast to oil and gas fields operated by different companies, the gas transport infrastructure is under state monopoly. The authorities have a duty to ensure that in general the gas transport system is cost-effective and integrated, transport capacity is available for all interested players, and tariffs for access are low enough to avoid unnecessary costs for producers.

The transportation system of the gas from the Norwegian Continental Shelf to other European countries is operated by Gassco. This enterprise is wholly owned by the Norwegian State. It was established in 2001 as a result of an extensive reorganization of the Norwegian oil and gas sector (till 2001, the transport of gas was provided by a number of companies). Gassco is a neutral and independent operator ensuring that all users of the gas transport system have equal opportunities, both as regards utilization of the system and consideration of capacity increases.

Gassco’s responsibilities include all activities connected with the transport of gas from the fields to the receiving terminals (also as an operator for terminals in Dunkerque – France, Zeebrugge – Belgium, Emden and Dornum – Germany), including planning, monitoring, co-ordinating and administering. It plays two various general roles called ‘special operatorship’ and ‘normal operatorship’. The former includes the responsibilities Gassco is directly assigned under the Petroleum Act and other regulations. These include developing new infrastructure, administering system capacity and coordinating and managing gas streams through the pipeline network to markets. The latter means running the infrastructure in accordance with the normative requirements mainly included in the Petroleum Act and other health & safety and environment legislation.

The role of system operator and the actor with the best overview of the system, makes Gassco responsible for further developing an integrated Norwegian gas infrastructure. It gives advice to the government when new, major development projects are being
evaluated and also when interactions between new and existing infrastructure are assessed.

The gas transportation system, that is to say pipelines and terminals, is mainly owned by the Gassled partnership which came into force on January 1, 2003. This joint venture integrated all of Norway’s gas transport systems and serves as the formal owner of the Norwegian gas transport infrastructure. Gassled’s owners as of December 9, 2015 are Petoro SA 46%, Solveig Gas Norway AS 25%, Njord Gas Infrastructure AS 8%, and other companies (see Gassco). Gassled encompasses all gas facilities that are currently in use or are planned to be used to any significant degree by third parties. In addition, new pipelines and transport-related facilities are to be included in the venture from the time they are put to use by third parties, and are thus part of the central upstream gas transportation system. Surprisingly, it has no regular employees and is organized through various committees with specific assignments.

All commercial aspects of the State’s Direct Financial Interest assets have, since 2001, been managed by Petoro AS on behalf of the state and at the state’s expense and risk. This state-owned enterprise’s objective is to create the highest possible financial value from the state’s petroleum portfolio on the basis of sound business principles (it is not an operator). The company’s ability to generate income is closely related to its ability to collaborate with and influence operators and other partners, as Petoro has the same rights and obligations as the other licensees on the NCS. It’s role of identifying opportunities for boosting value creation also makes Petoro active in relation to the supplies industry, technology groups, the government and society as a whole.

**The effectiveness of the Norwegian model**

Undoubtedly, the real potential of the hydrocarbon management model of Norway can be best analyzed through the perspective of its economic and social consequences. In the course of last few decades, Norway’s hydrocarbon production has been highly important for the creation of the Norwegian welfare state and has been the main driving force behind the economic success of this relatively small Nordic state.
First, the Norwegian petroleum industry has managed to create ripple effects both locally and regionally, from the southern provinces of Rogaland County, with Stavanger as a Statoil hometown, to the most northern areas of the Barents Sea. The industry is an employee for a substantial segment of the Norwegian population as oil companies and supply companies create about 150,000 jobs. However, taking into account the effect of the petroleum industry’s demand on the overall economy, the actual number of people connected with the sector may increase by 100,000. All activities on the Norwegian continental shelf are also subject to strict requirements as regards to health & safety and the external environment, making Norwegian oil and gas as clean and safe as possible. Undoubtedly, the industry has been the most important factor in contributing to the sustainable development of the whole country.

Professional, prospective, predictable and sustainable management of petroleum industry has transformed Norway into an important, international energy player. In 2015, according to the International Energy Agency (13), Norway was the third largest global net gas exporter with 107 bcm (after Russia – 179 bcm, and Qatar – 119 bcm) and covers more than 20% of the EU’s demand gas, competing with the Russian Federation for the top position. It was also the 15th largest oil producer in 2014 with 1904 thousands of barrels per day (US Energy Information Agency).

The petroleum industry in Norway’s ranks at the very top in terms of value creation, state revenues and export value. In 2015, the sector witnessed relatively weaker results, which were mainly caused by the low prices of oil and gas on international markets. In 2015, total revenue from the sector amounted to about 20 per cent of the state’s total revenues, which was 9% less than in 2013. The sector’s share of GDP also dropped from 21.5% in 2013 to 15% in 2015, and its share of total exports shrunk by 10% from 48.9% (The Norwegian Petroleum Directorate e).

Despite some periodic drops, petroleum revenues has been the main impetus for the Norwegian economy and wealth. All income produced by the sector is deposited in the Government Pension Fund – Global founded in 1990 (till January 2006 – the Petroleum Fund of Norway, commonly referred to as the Oil Fund (Norwegian: Oljefondet). The Petroleum Fund was established to avoid the overheating of the economy, and the possibility of Dutch Disease, to counter the effects of the forthcoming decline in income and to smooth out the effects of oil
prices fluctuations (Holden). The fund’s direct income is generated mainly from taxes of companies, payments for license to explore, the State’s Direct Financial Interest and dividends from the partly state-owned Statoil. The fund invests its assets internationally in stocks, bonds and properties. As of 29 March 2016, its value was NOK 7138 bln (Norges Bank) meaning that the Norwegian state can be a net creditor for many developing countries, and the largest stock owner in Europe\(^3\).

**Table 4.** Macroeconomic Indicators for the Petroleum Sector, 1971–2017

![Graph showing macroeconomic indicators for the petroleum sector, 1971–2017.](image)

Source: The Norwegian Petroleum Directorate e

The immense wealth accumulated in the fund gives grounds to many political debates over such issues as the risk of investments in international stock portfolio, increase of direct spending of revenues within annual budgets, and an ethical framework for investments. First and second issues appear periodically dependent on the political climate, but there seem to be a consensus that first, financial risk is a natural outcome of a liberal economy and real gains can be achieved by participating in the market, and second

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\(^3\) The Fund’s total market value is permanently updated and visible on the webpage of the Norwegian Bank.
spending more money (supported by the Progress Party) can be dangerous for economic reasons.

In the case of third issue, all axiological problems connected with the fund’s assets are regulated by the Council on Ethics which is responsible for giving guidelines for fair, socially and environmentally friendly investments. According to the council’s regulations, the pension fund “shall not invest in companies which themselves or through entities they control: produce weapons that violate fundamental humanitarian principles through their normal use; produce tobacco; sell weapons or military material to states that are subject to investment restrictions on government bonds (Council on Ethics). Generally, all companies may be put under observation or be excluded if they contribute to or are responsible for: serious or systematic human rights violations, such as murder, torture, deprivation of liberty, forced labour and the worst forms of child labour; serious violations of the rights of individuals in situations of war or conflict; severe environmental damage; acts or omissions that on an aggregate company level lead to unacceptable greenhouse gas emissions; gross corruption other particularly serious violations of fundamental ethical norms (Council on Ethics).

Most recently, on May 25, 2015 as a proof of their serious attitude towards the mitigation of green gasses emissions, a historical decision was taken by all Norwegian parliamentary parties to divest the pensions fund’s assets from mining companies and coal power producers. This can affect more than 120 companies across the world and would be the largest ever fossil fuel divestment with immense international effects (Carrington). It proves that indirectly Norwegian management of its oil and gas sector, which is based on commercial but also on axiological directives, has a more far-reaching global impact than one which is exclusively connected to the sales of hydrocarbons.

**Conclusions**

The success of the Norwegian Model of hydrocarbons management is based on several factors such as the central role of the state, good interaction between the state authorities, national companies, supplier industry, special interest organizations and the research and development institutions creating networks and
clusters in many parts of the country. It is based on the strict separation of policy, commercial, and regulatory functions with state institutions responsible for different areas. Simultaneously the basic logic behind this is that private elements are essential to competitiveness so that the state cannot be an omnipotent actor. What is most important is that the sector is not vulnerable to current political pressures, as there is a wide political consensus that wealth should be sustained for future generations. The result is that the Norwegian petroleum sector can be called professional, predictable, prospective, and profitable.

The final question is whether the Norwegian Model is applicable in other oil-exporting countries, can this type of administrative design be successful in other political settings. All over new petroleum frontiers this model is being examined by governments in Africa and Latin America with the aim of achieving good governance combined with heavy exploration and nascent production (Al-Kasim). According to research of Mark Thurber et. al. this model, based on separation of different functions, can be applied only with regard to political and institutional context (12). Most of countries with oil and gas sector like Brazil, Mexico, Nigeria, Algeria, Malaysia, Saudi Arabia, Angola, Russia or Venezuela do not have strong institutional capacity and competitive political systems to copy all aspects or Norwegian system. In such cases it is more effective to create one all-purpose administrative tool than the system of multiple bodies checking and balancing each other. What Norwegian Model also cherish is a long time perspective and wealth of the whole nation, both of which are unfamiliar for these countries. As a conclusion one may say that the Norwegian Model of hydrocarbon management, although very efficient, is not a kind of universal design. It has grown and matured in special political, social and economic setting which is quite unique and distant from political culture of many countries.

Works cited


