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The Oil Industry and Government Strategy in the North Sea By Oystein Noreng

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In a pattern similar to many developed countries, the United Kingdom and Norway became increasingly dependent upon imported oil in the decades following World War II.1 Thus, along with the rest of Western Europe, the United Kingdom and Norway had an interest in maintaining low oil prices and in guaranteeing the flow of oil.2 The discovery of natural gas in the Netherlands, in 1959, led to an interest within the international oil industry in the geological structures extending northwest from the Netherlands into the North Sea.3

The legal structures and institutions, however, were not in place to permit immediate exploration of this area. The First U.N. Conference on the Law of the Sea in 1958 had adopted the Convention on the Continental Shelf, which defines the rights of coastal states to claim territorial jurisdiction on the continental shelf. Neither the United Kingdom nor Norway had ratified the Convention4 when problems arose over the sovereignty of the continental shelf. Exploration and exploitation became matters of national jurisdiction.5 The unique geography of the North Sea6 created a conflict between the United Kingdom and Norway in interpreting the Convention on the Continental Shelf. Several difficult questions arose: Could Norway legally claim the shelf beyond the Norwegian Trench, a 2,300 feet deep rift which separates Norway from the North Sea? How would the United Kingdom and Norway draw the median line7 to divide the North Sea resources? Once the resources were divided, how would each nation develop and license a North Sea oil industry? What should be the relationship between the oil companies and the governments of the two oil producing countries?

In The Oil Industry and Government Strategy in the North Sea, Øystein Noreng answers these questions within the context of international and domestic law. Dr. Noreng is well qualified to write on the subject of the interdependence of governments and oil companies. He has been an economic planner with the government of Norway and with Statoil, the Norwegian national oil company. In addition, Dr. Noreng has served on the board of the Norwegian Petroleum
Workers' Union. Currently, he is a Professor of the Norwegian School of Management in Oslo. Thus, Dr. Noreng brings to his book the perspective "of a government planner, whose main concerns are the long-term and complex interests of the state, orderly development as well as social and political stability." 7

The book first establishes the background from both an historical and theoretical viewpoint. Next, Dr. Noreng analyzes the factors affecting the government-industry relationship. Finally, the book considers the future while applying factors learned from experience. Dr. Noreng contrasts the characteristics of four models of development: the North Sea, the United States, the OPEC and the Soviet Union. 8 Dr. Noreng weighs the advantages of the North Sea model against its potential disabilities. For example, the chief disadvantage of the North Sea model is that "it yields the right to manage the operations and to dispose of the oil from the government to the private participants." 9 The model's chief virtue is "access to the experience and technology of foreign partners, as well as the direct mobilisation of private capital." 10 Thus, Dr. Noreng's North Sea model is more attractive to Western nations.

Dr. Noreng describes the basic relationship between the governments of the United Kingdom and Norway and industry as one of "antagonistic interdependence." 11 The governments owned the resources but lacked the expertise to develop them. Also, these governments were reluctant to invest public funds in high-risk ventures. The industry, on the other hand, had the expertise and the willingness to risk capital, but did not own the resources. Thus, the stage was ready for the bargaining confrontation which ensued. The bargaining revolved around the division of the financial gains and the control over exploration activity. 12 An accommodation of the conflicting needs and desires of the parties was necessary. In the negotiations, the two governments had to accept two actualities. First, to the extent that a government takes advantage of the operational expertise of industry, the government necessarily relinquishes some degree of control. Second, the government must make financial incentives available to industry to induce its participation.

The common goal of government and industry in ventures involving the exploitation of resources is to succeed. For government, success means macroeconomic benefit in a relatively problem-free political environment. For industry, it means a fair return on investment after consideration of all risk factors. While each side shares this goal of success a natural antagonism exists between

7. Id. at 9.
8. Id. at 33.
9. Id. at 34.
10. Id.
11. Id. at 21.
12. Id. at 20.
them as each defines success in different terms necessitating the application of different means.\footnote{Id. at 21.}

The North Sea model is instructive because it involves some unique elements. The oil industry decided to move into North Sea exploration at a time when experts estimated the costs of exploration in the North Sea to be about twenty times the costs in the Middle East.\footnote{Id. at 22.} The North Sea situation was also unique because it involved negotiations with long established, stable governments having cumbersome bureaucratic structures, rather than the Middle East governments with their more patriarchal atmosphere or the United States with its relative laissez faire attitude.\footnote{Id. at 20-23.} The oil industry must have expected the safety of its investment to be greater than normal. Although Dr. Noreng is not privy to the inner thoughts of those in control of the oil industry, he is probably correct in suggesting that the changing world oil market and the relative stability of the U.K. and Norwegian governments were the paramount factors which influenced the oil industry’s decision.\footnote{Id. at 24.}

The move by the governments of the United Kingdom and Norway into new and unfamiliar areas necessitated rapid technical self-education and development of new national goals and values. Neither the concessionary system of the United States nor the state system of the Soviet Union provided appropriate guidance for North Sea resource development. However, as the North Sea model evolved, Norway and the United Kingdom included elements of both systems. State oil companies played a dominant role, but private companies participated directly in devising specific approaches and goals with little centralization. Since the needs and problems of the two countries differed, the approaches to and final results of North Sea resource development also differed.\footnote{Id. at 27-31.} Nevertheless, according to the arguments of Dr. Noreng, a North Sea model may be constructed from the experiences of these two governments.\footnote{Id. at 31.}

This reviewer found Noreng’s concluding examination of each government’s achievements and failures to be of particular interest. Norway began North Sea resource development in a position of apparent strength and clarity of vision. From this position Norway pursued an ambitious program. However, the United Kingdom, following a more pragmatic approach, has enjoyed greater success than Norway to date.

*The Oil Industry and Government Strategy in the North Sea* will be particularly helpful to the political student studying the interplay between government structures and large industry. It also contains valuable lessons for the lawyer who

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13. *Id.* at 21.
14. *Id.* at 22.
15. *Id.* at 20-23.
16. *Id.* at 24.
17. See *id.* at 27-31.
18. *Id.* at 31.
represents either government agencies or industry bargaining with government agencies. With the movement of energy source development towards more inconvenient geographical areas, such as the polar regions, and towards more unusual forms of energy, such as the production of methanol from the gas by-products of oil production, this book is valuable for its clear and insightful presentation of the problems of and approaches to the energy resource industry.