English:

POL2022/POL3522:
Petroleum Management, Political Economy and Ethics
(*Petroleumsforvaltning, politisk økonomi og etikk*)

FINAL EXAM
4 December 2015

The exam includes three components, each of which constitutes 1/3 of the final grade.

I. Provide short (e.g., one paragraph) descriptions for each of the following five terms:

- Reputational Risk
- Sliding Scale
- Economic Rent
- Service Contract
- The Aukrust Model

II. Respond to one of the following two essay questions:

- What are the characteristics of Dutch Disease?

  Or

- How can the organization of a state's petroleum administration help counteract corruption?

III: How can the state facilitate a good relationship with IOCs?

SENSORVEILEDNING

English:

I. (ANSWER ALL 5)

Reputational Risk. A risk of loss resulting from damages to a firm's reputation, consequent to an adverse or potentially criminal event (even if the company is not found guilty). Examples include lost revenue; increased operating, capital or regulatory costs; and destruction of shareholder value. Reference CSR literature.

Sliding Scale. A formula used by the Norwegian government to ensure that the government's participation share increased with the size of a field's productive capacity. As the size of production increased, so too did the Norwegian government's share (via Statoil). Introduced in the 3rd Allocation Round, dropped in the 10th (1985); it is no longer used.

Economic Rent. Any payment to a factor of production in excess of the cost needed to bring that factor into production. In classical economics, economic rent is any payment made (including imputed value) or benefit received for non-produced inputs such as location (land) and for assets formed by creating official privilege over natural opportunities (e.g., patents). Rent = Prize or super-profit.

Service Contract. A contract between IOCs and the host government that does not transfer the rights of ownership to the resource. In this contract form, the IOC never actually gains ownership, or "title", to the resource—it is simply paid a fee for its services in extracting the government's resource. Contrast with other contract forms (concessionary, productions haring agreement, etc.; and note different types of service contracts (risk-bearing or not).

The Aukrust Model. An example of a Scandinavian Inflation Model, from Odd Aukrust. A two-sector (exposed/sheltered) model that recognizes that the developments of prices and incomes in small and medium-sized economies are strongly affected by events in the outside world. The model is used to demonstrate how prices in the sheltered sector can affect prices in the exposed sector, at the expense of international competitiveness. From Aukrust (1977).

II. (CHOOSE ONE OR THE OTHER)

What are the characteristics of Dutch Disease?

Here the focus should be on listing the different features that are associated with Dutch Disease, not describing how to respond to them, or what Norway did to respond to them. (Of course, to the extent that the student uses examples on how to respond—or how Norway did respond, and this helps illustrate the characteristics, we will see this as helpful.) The pensum points to the following characteristics: real appreciation (resulting in decreased international competitiveness), factor movements effects (capital and labor being sucked out of other sectors to attend the petroleum sector); spending effects (both private and public), and laziness factors

How can the organization of a state's petroleum administration help counteract corruption?

There is no easy solution to this problem. We expect students will discuss the need to introduce a system of checks and balances, ala the Norwegian ("tripartite") model, where policy, regulatory and commercial responsibilities rest in different and autonomous institutions (with references to the problem of having foxes guard the henhouse). The literature that helps inform this way of thinking is

Peter Evans' "Embedded Autonomy". Much of the economics literature discusses the need to introduce good institutions (respect for property rights, rule of law, etc.), and the need for transparency. So these issues might be considered/addressed as well.

III: How can the state facilitate a good relationship with IOCs?

Note that this is not a question about Norway, but about the general relationship between states and IOCs. To respond to this question, the student needs to demonstrate an understanding of how the power between the policy, regulator and commercial institution can affect the relationship (e.g., political and regulatory power in the hand of the NOC can/will be negative for the relationship), and how policies can affect the relationship (e.g., improved oil recovery (IOR), cost reductions, local content, business climate, …). It is not unreasonable that student also engage the issues of changing balance of power, via the OBM.