

NORWEGIAN UNIVERSITY OF LIFE SCIENCES





# **The Norwegian Petroleum Experience: A Model for Ghana?**



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## Declaration

I, Mensah Augustine Effah, declare that this thesis is a result of my research investigations and findings. Sources of information other than my own have been acknowledged and a reference list has been appended. This work has not been previously submitted to any other university for award of any type of academic degree.

Signature..... Date.....

## **Dedications**

To Maame, Dr. Charles Obeng Mensah, Elizabeth Foriwaah and Lydia Gyaasewaah (My Siblings). My late Dad and Brother, Robert Kwaku Mensah and Tony Takyi Mensah respectively also deserve to be mentioned and may their souls rest in perfect peace.

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## **Abstract**

Ghana has recently joined the league of oil and gas producing states in commercial quantities. There are demands to make sure this resource transforms the economy in a positive manner to benefit all and sundry but not a few. Such desire has led to the call to consider the acclaimed rich oil experience of Norway. This has induced the involvement of Norway in the development of the new Ghanaian petroleum industry.

This thesis delves into how valuable the Norwegian oil experience can be for Ghana in an attempt to make the oil and gas find a blessing but not a curse. The Norwegian petroleum experience is rich and offers several universal valuable lessons. However such lessons ought to be contextualized due to the dynamics of the settings and times.

It was found that development of an oil industry like the Norwegian experience does not only rest on the few technocrats but several actors and conditions come into play to shape the role of petroleum in the development of a state. Factors like the radical concession regime prior to the oil discovery, strong labour movements, democracy, accountability, transparency etc have all played diverse roles in shaping of the Norwegian petroleum experience. However premium is normally put on only transparency, accountability, democracy and institutions (technocrats) to showcase to the outside world as the key instruments to help avert the negative effects of oil production in large quantities.

Again, it was realized that petroleum exploitation involves several actors interest. But the society of Norway was determined to secure control over its resources which occasionally led to conflicts between them and the oil companies. This was actualized due to the incorporation of the labour unions into the political spheres of Norway. And this indicated that democracy is not only characterized by peaceful presidential and parliamentary elections but also with active and direct popular mobilization to demand transparency and accountability, because politicians will only be good as you want them to be.



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## **List of Abbreviations and Acronym**

AFAG	Alliance for Accountable Governance
BAT	Best Available Technology
CIA	Central Intelligence Agency
CJA	Committee for Joint Action
CPP	Convention People's Party
DRC	Democratic Republic of Congo
EFTA	European Free Trade Agreement
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GNPC	Ghana National Petroleum Cooperation
GSS	Ghana Statistical Service
IMF	International Monetary Fund
IOC	International Oil Companies
MDG	Millennium Development Goal
MOU	Memorandum of Understand
MP	Member of Parliament
MPE	Ministry of Petroleum Energy
NATO	North Atlantic Treaty Organization
NDC	National Democratic Congress
NGO	Non Governmental Organization
NOK	Norwegian Kroner
NORAD	Norwegian Agency for Development Cooperation

NPD	Norwegian Petroleum Directorate
NPP	New Patriotic Party
NTH	Norwegian Technology University
OfD	Oil for Development
PETRAD	Petroleum Management Knowledge Transfer
PNDC	Provisional National Defense Council
SADA	Savanna Accelerated Development Authority
SAP	Structural Adjustment Program
SDFI	State Direct Financial Interest
SRA	Social Research Association
TIK	Technology, Innovation and Culture
TNC	Transnational Cooperation
TOR	Tema Oil Refinery
UNDP	United Nation Development Program
WTO	World Trade Organization

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# Chapter One

## Introduction

### 1.0 Background

Norway has recently become involved in establishing the Ghanaian oil and gas industry. It is claimed its rich experience can be put to use in Ghana and assist the country avoid the “resource curse”. In this thesis I ask whether this is really the case. Is the Norwegian petroleum experience of value to Ghana?

The resource curse has been explained by Auty (1993, 2001); Collier and Hoeffler (1998, 2002a); Ross, (1999, 2001) and, Sachs and Warner (2001) as how natural resource rich countries are unable to take advantage of this wealth to enhance their economies. More often than not, these countries can be classified as having poor economic growth compared to their counterparts without such natural resource abundance. The supposed advantages of economies in terms of having access to natural resources are frequently strangled by all sorts of conflicts, corruption, lack of transparency, weak institutions and more often the majority of their citizens are isolated in abject poverty. It is against this background that Norway has apparently achieved a status which is highly revered in the field of petroleum management.

Larsen (2004) and Ryggvik (2010) demonstrate how important and influential the Norwegian petroleum industry has become in changing the economic fortunes of the average Norwegian in a positive direction. Norway was ranked as the best place to live in the world by the United Nations 2010 Human Development Index. It should also be recognized that Norway was the poorest among the Scandinavian countries prior to the discovery and subsequent exploitation of oil in 1971 (Larsen, 2004).

Ghana, a young (two decades of uninterrupted democratic rule) state, has recently discovered petroleum and begun the exploitation in commercial quantities. With this development the expectations of Ghanaians have been heightened. However there is some level of caution since Ghana has a history of exploiting other natural resources like gold, diamond, bauxite, timber, cocoa etc and still struggles to reduce the poverty levels of majority of the people. Recognizing this history, this thesis intends to take a critical look at the Norwegian petroleum experience and consider how beneficial it is to other countries that are unable to benefit from their petroleum resource to serve as a lesson for Ghana. A detailed examination will be made

of what actions has Norway taken to have avoided the resource curse. Norway is one of the few exceptions including Botswana, Bolivia, Chile, Canada, Indonesia etc that have had relative success with respect to petroleum resource management.

The conclusion of this research I hope can be used to provide lessons and knowledge that can be used by a new entrant state like Ghana in the production of petroleum. It is recognized that the certainty of the success of a replicated policy cannot always be assured due to the dynamics and particularity of each geopolitical setting. Contextualized recommendations will be made to suite the Ghanaian situation at the end of the research. This critical examination of the Norwegian oil experience will be analyzed through the lens of theories of international political ecology, socio-cultural, domestic political and economic dynamics. In this respect attempts will also be made to consider the best possible areas to invest oil revenue to encourage social development in Ghana. Again, emphasis will be placed on political, educational and environmental issues as the key thematic areas in which the analysis will be done.

The production of petroleum involves the interplay of both national and international (states and non states actors alike) interests which must be carefully balanced to bring out the positive effects to the producing states. Many of the cases previously studied revealed that it is quite difficult to raise the required capital for exploration and exploitation domestically. Indeed, foreign companies with private and commercial interests engaged commonly use foul means to protect and guarantee their interests. This apparently makes it difficult for those (republics) which have the right to these resources to fully benefit from them.

The key questions posed by this project are;

- What does the Norwegian petroleum experience consist of?
- Does the lack of policy space in the global political economy play a role in the resource curse conundrum?
- What impact do globalisation and liberalisation of the world's economy have on the performance of extractive economies? (i.e. Can Ghana in 2012 act like Norway in 1971?)

## **1.1 Theoretical framework**

There have been several attempts to theorize the myth behind the resource curse. The thesis of greed and grievances is one of such theories which argues that countries endowed with natural resource abundance have their development impeded by devastating conflicts, corruption and poverty. One common explanation is that this occurs because rebels are easily funded by rents from natural resources; (Collier and Hoeffler 2001a). Thus, when particular group of people with common identity feel cheated or neglected by the elites, they tend to demand for their portion of the rent from the resources (as result grievances). Small groups of people (the elites) plan to weaken the state institutions in order to gain control over the resources so that it can benefit them and their cohorts because of economic opportunism or greediness.

Dependency theory also points to the fact that economies that have a higher percentage rate of their gross domestic product (GDP) as rent from natural resources, find it difficult to perform well. This is because the international commodity market prices for these products are very unstable (Ross, 1999). This tends to deny the state of a regular and reliable source of income. Also the overreliance of the economy on the resource sector at the expense of the non resource sector frequently results in Dutch Disease – a situation where the resource sector of the economy causes appreciation of the real exchange rate and consequently crowds out the other tradable sectors especially manufacturing sectors by making them non-competitive (Corden and Neary 1982; Bruno and Sachs 1982).

The above mentioned theories attempt to explain the connection between resource abundance and poor economic growth. However, the effects of the political environment (the global political economic architecture) in which the producer and buyer states operate is frequently ignored. What takes place in the global politico-economic architecture is a sort of “clientelistic” (master-servant relationship), where the producing states have little or no control over the sales of their resources. The ideological struggle in the international political system, between super powers is gradually paving way for the struggle for economic might, which forms the basis of military might. The ability to gain economic might is premised on a reliable source of energy which also depends on the accumulation of (wealth) natural resources (especially oil and gas) of the weaker states. This has motivated what might be called “Trojan horse” policies by the super powers (USA, France, Britain and recently China etc) in the global south. The Washington based institutions (IMF and World Bank) propagate



policies which simply betrays the basic responsibilities of the state; thus making the necessary regulative environment for the citizenry to fully benefit from what naturally belongs to them almost impossible. Reinert (2008) reveals how rich countries have developed through government intervention, protectionism and strategic investment. But these same super powers through the IMF and World Bank insist on unqualified and absolute standards of free trade as the only means to advance economically. This has continuously rendered the poor countries poorer since they do not compete with the technologically advanced (rich) states on fair grounds. Again, this quest of the imperial powers to economically secure themselves, has led to the disregard of the sovereignty of the weaker states. This undermines such countries' ability to manage their own affairs in the context of their peculiar socio-cultural and economic needs and aspirations (Omeje, 2008 and McNeish & Logan et al, 2012).

The neorealist thesis could help to identify how best interests (internal and external) could be managed as well as toning down the possibility of creating serious class difference, as a result of wealth that will be generated out of the production oil and gas in Ghana. The neo realist theory of Kenneth Waltz helps to explain why states must act in their interest in the face of international liberalization and globalization (Waltz, 1979). Neo realism is a school of thought founded on the principle that, the international political system is anarchical. The anarchy in this sense means there is no central authority in the international system to enforce order, therefore states must act in their own interest above all others or risk lagging behind. Therefore what can apparently assist the resource producing states to succeed is to protect what is in their national interest against all odds when dealing with the external parties involved in this petroleum business. This can be done by utilising the expertise of professional negotiators in their negotiations with the Trans national petroleum companies to achieve the best for their nations. Most petroleum producing states often lack the prerequisite knowledge about the giving out of concessions and that conforms to Adam Smith's assertion in his Wealth of Nations (Reich, 2000:166) that due to ignorance and liberality, landlords usually do not get the real/highest value of their land. This is why nations ought to have people with the expertise to handle the negotiations of the contracts and giving out concessions. However, carrots and stick forms of negotiations can be employed when dealing with the foreign oil companies in spite of the pressure from trade liberalisation and globalisation. Thus, tool of reprisal can be used by the government to take a firm stance on its national interest.

This reveals the problem of securing national interest in a better perspective as multinational companies or transnational cooperation (TNCs) are deeply involved in both exploration and

exploitation of petroleum resources. It also suggest how best Ghana can protect and promote her interest whilst operating in the framework of globalization. Globalisation as a phenomenon comes with some level of restrictions to the nation state. Due to ratifications and agreements (bilateral or multilateral) the sovereignty (authority) of states are occasionally limited especially when it comes to employing protectionist measures in favour of one's own interest.

## **1.2 Research methodology**

According to Merriam (2002) qualitative research establishes that, meanings are socially constructed in several ways and are interpreted as such in reality while it changes with time. It is in this light that qualitative method helps to seek to understand the interpretation of realities of the Norwegian oil industry to suit the Ghanaian context. Bryman (2012) argues, qualitative as a research strategy is broadly inductivist, constructionist, and interpretivist but its users do not always subscribe to all these three features. This study focuses on the understanding and opinions (i.e. constructed) and interpretations of interviewees about Norwegian petroleum experience through a purposive sampling. Based on this, I use my subjective interpretation in the analysis of the collected data (including articles, journals, books etc). That is the analysis of the data collected includes semi structure interview of respondents and other secondary sources.

A comparative analysis between Ghana and Norway has been utilized to critically asses how beneficial a model from one setting can be effective in a different geopolitical setting with its own peculiar needs. Thus, I find out about the kind of lessons the Norwegian petroleum sector offers to the Ghanaian oil industry. An intensive examination has been carried out to find out about how petroleum has brought about economic growth in Norway in an egalitarian manner. In so doing, the young and still developing Ghanaian petroleum experience has been observed through the lens of the Norwegian experience in the following thematic areas; Political, environmental and educational perspectives. I propose that this will help to identify the exact causes of the Norwegian petroleum management success as well as the weaknesses which may serve as a guiding principle for Ghana in this particular respect.

## **1.3 Data collection and Interview guide**

In-depth and semi-structured interview have been carried out with concerned officials in relevant institutions in the framework of purposive sampling. Purposive sampling is where respondent are sampled in a strategic manner, so that those sampled are relevant to the

research questions posed (Bryman, 2012). Interviews carried out have been supplemented by analysis and empirical information drawn from various relevant sources such as books, articles, journals, references, observations and internet articles in a thematic manner. These secondary sources have been obtained from institutions and ministries in Norway. Examples of some of these bodies are; Norwegian Agency for Development Cooperation (NORAD), Petroleum Management Knowledge Transfer (PETRAD), Norwegian Petroleum Directorate (NPD), Statoil, Norwegian Petroleum Museum. Since it is to some extent difficult to isolate particular reasons for the acclaimed Norwegian success based on individual's perspective, interviewees have been allowed to present their subjective account. This has enabled me to acquire diversified account of what the apparent success story of Norwegian oil experience consist of. Thus what are the Dos and the Don'ts one can learn from the Norwegian oil experience?

#### **1.4 Structure of the Study**

The thesis is organised into seven chapters. The first chapter is the overall introduction of the study. It discusses the background, research methodology, the theoretical framework, data collection and interview guide of the study. Chapter two provides a review of the relevant literature. Chapter three highlights the political and economic orientation of Ghanaian in the perspective of the new petroleum industry. A critical look at the Norwegian experiences in the hydrocarbon sector is the main objectives of chapter four. Chapter five looks at the Norwegian experience in Ghana with particular emphasis on the Oil for Development Programme. The penultimate chapter also discusses and compares the literature with the findings and the final chapter works on the conclusions and proposals of the study.

## **Chapter Two**

### **Literature Review**

#### **2.1 The Resource Curse**

The resource curse thesis explains how natural resource rich states struggle to cope with the pace of economic development relative to their counterparts, who do not have the benefits of these important and strategic resources. Though natural resources ought to serve as a catalyst for economic growth, there is still the tendency for them to cause poor economic growth (McNeish & Logan et al 2012 and Davis 1995). However, the majority of the states which enjoy such bounty of nature show a great sign of evidence in support of the resource curse. Countries like Nigeria, Angola, Sudan, Equatorial Guinea, Sierra Leone, DRC etc are examples of countries commonly experiencing the effects of the resource curse. They demonstrate poor economic growth despite huge natural resource endowment. This is because of their inability to utilize the importance of their natural resources.

The resource curse thesis is however, a selective explanation of the causes of the difficulties experienced by countries in the south. It fails to consider relevant factors such as geopolitics, cultural and historical dynamics etc which have great influence on the resource curse thesis (Davis, 1995, Omeje, 2008 & 2004 and McNeish & Logan et al 2012). A critical examination of the validity of this assertion (the resource curse) is the primary objective of this chapter. In this chapter I try to explore and highlight the weaknesses underlying the resource curse discourse.

Comparatively, the Asian Tigers (South Korea, Hong Kong, Singapore and Taiwan) for example, are less endowed with natural resources but have achieved significant success in economic development. Thus these states have achieved high economic growth rate, unprecedented poverty reduction and wealth creation in the face of little or no dependence on natural resources. This came to provoke a corpus of researchers to scrutinize the resource curse thesis further. There is a confluence of consensus within the scholarship of the resource curse debate (Auty, 1993, 2001); Collier and Hoeffler (1998, 2002a); Ross, (1999, 2001) and, Sachs and Warner (2001) that resource abundance and economic growth are antithetically

related. As a result of this there is the widely accepted notion of *paradox of scarcity in the midst of abundance* with respect to countries endowed with natural resources but with a exception of a few. Moreover, it has been difficult for states especially those in the southern hemisphere to quench their desire to achieving qualitatively better societies with the rent from these strategically important natural resources.

Auty (1993) postulates the term “resource curse” to explain the inverse correlation between natural resource and economic growth. This situation has attracted a diversity of intellectual discourse in examining the connection between these two puzzling phenomena. He highlights that states with higher percentage of GDP from natural resource experience worse economic performance as compared to those that are less dependent on such resources. This is attributed to the instability of the commodity prices in the international commodity market. Collier and Hoeffler (1998 and 2002a) suggest that oil dependant economies or states are at a higher risk of degenerating into civil conflict than those which are less dependent on these resources. What Collier and Hoeffler (1998 and 2002a) try to bring to fore in their work on the “Economic causes of civil war” and “Greed and grievances” respectively, is the relation between resource and the conditions that unleash civil conflict. States with higher percentage share of their GDP from the contributions of primary resources or commodity are highly vulnerable to civil war. This is because rebels easily find the opportunity to be financed which fosters rebellion.

Le Billon (2004) also indicates that natural resources came as a substitute to foreign sponsorship due to its subsequent withdrawal at the later part of the cold war in the late 1980s. Not only does it serve as a main source of income to states, it also serves as a strong motivation for conflicts and war in both domestic and international affairs. Several scholars have linked a significant number of intra and inter-state wars to resources, and especially to oil and gas. Some analysts classify the Iraqi and the recent Libya invasions by US and NATO respectively as oil wars. Depending on the nature of the resource in question (how close or far the resource is) rebels are motivated to gain control in the form of rent-seizing, as Ross (2001) puts it. Again, how easily a resource can be accessed or looted determines the kind of influence it has on or serves as a source of conflict. The easy access to loot the resource increases the probability of it causing conflict (Ross, 2001 and Le Billon 2004).

Ross (2001) further explores the resource curse to affirm how poor states especially those in the global south are endowed with natural resources. He tries to attribute the vulnerability of

the extractive (oil and mineral wealth) economies to civil wars to their endowment with natural resources. This is because such states are less democratic. The non existence of democracy is caused by these same resources. This tends to result in oligarchic governance. That is where few people take control of the state and government apparatus and make it work in their favour. He further notes that states which produce resources, and especially oil, are often characterized by authoritarianism. Lack of democracy is explained as a major cause of resource conflicts which is a common phenomenon among the resource producing countries.

Theorists have explained that political elites who gain control over the natural resources (especially oil and gas) of a state work to keep the states undemocratic in order to have the chance to line their pockets with rents from the resources. "... Oil and mineral wealth tend to make states less democratic". This is because leaders do not account for their stewardship due to little or no taxes from the citizenry. Ross (1999) explains the kind of relationship that exists between resource abundance and economic growth. This is attributed to the decline in terms of trade for primary commodities, the instability of prices in the international commodity market, the poor linkages between resource and non resource sectors, and an ailment of Dutch disease.

He further lays out the political aspects of the causes of the resource curse. Ross has categorized the explanation as having three parts. These are; a cognitive explanation, which attributes the curse to the lack of proper vision on the part of policy makers of states endowed with natural resources. That is, the political elites of these states do not foresee the potential negative effects as a result of the resource boom. Societal explanation is also used to elaborate that rents from the exports of these resources empowers sections of the society to impede growth policies in order to maintain their leverage over the booty that comes out of the resources. The last part of this section of Ross (1999) is to some extent dependent on D. Michael Shafer and Terry Lynn Karl argument that resource abundance adversely affects state institutions especially when the boom comes at the genesis of state formation. The third and last section of Ross (1999) addresses the issue of resource curse by identifying state owned enterprises in charge of exploitation or extraction of the resource as a major cause of conflict in extractive economies. And secondly, the lack of willingness to ensure property rights due to the weak institutions is also classified as direct or indirect cause of conflict.

Another influential theory to have gained dominance in the resource curse thesis is the behaviourist. Scholars inclined to this theory are of the view that the economic windfall from

natural resources tend to induce political elites to be complacent with respect to prudent economic measures. Irrational and emotional attitude of the political elites lead to poor economic policymaking due to myopia, sloth, over exuberance as a result of the windfall (Rosser, 2006 and Ross, 1999). Contrary to this, some political actors also act rationally in conformity to the self utility maximisation concept. Thus resource abundance brings about the opportunity for political actors to enrich themselves with the rent from the natural resources at the expense of the ordinary citizens. As a result of this, the issue of both greed and grievances come into play when the issue of resource curse is being addressed by scholars. Collier and Hoeffler (2004) confirms this by arguing that there is a greater incentive for rebellion when there is the recognition of the opportunity for rebels to enrich themselves through their ability to control a particular kind of natural resources in form of rent seeking.

### **2.2.0 Problematising the Resource Curse Thesis**

Though the resource curse thesis has gain dominance among wide range of scholars, there have been counter arguments by Davis (1995), Omeje (2004, 2005 and 2008), Rosser (2006), and McNeish & Logan et al (2012) that there are equally important factors which the resource curse thesis does not bring into play. Omeje (2004) argues that lack of consideration of historical dynamics results in a poor understanding of the linkage between resource abundance and poor economic growth. Thus some key factors (like the effects of the global political and economic architecture) are often neglected during the study of the infamous resource curse. A critical review of case studies done previously by scholars is employed by Davis (1995) to establish the lack of proper evidence in support of the resource curse enigma. He disagrees with the synonymous use of Dutch disease and resource curse with the explanation that they are never the same. He further attributes the causes of the resource curse to something more political than the resource itself.

To some degree, there are evidences to link resource abundance to poor economic performance but they are still quite weak to categorically establish this fact. There is the need to comprehensively interrogate the causal relationship between these two phenomena. There are unidentified contributing factors whether consciously or otherwise, as remote causes of poor economic performance whilst resource abundance may just be serving as proximate cause. Clarke (2008) highlights how imperial power like France's actions in West and Central Africa contribute to crises in these regions. This happens as result of the role they play in their

political - petroleum world game in the African domain. Auty (2001a) indicates, resource dependant economies performed extremely well prior to the 1960s. Can the global economic and political dynamics with respect to the Washington based institutions' (International Monetary Fund and World Bank) structural adjustment programs be a source of worry in reference of the resource curse? It has reasonably been argued that natural resources have the potential and do contribute to the resource curse by prolonging or aggravating resource conflicts. Omeje (2008:93) agrees to some degree with Collier's argument that greed might be the cause of some of the resource conflicts. However, he strongly disagrees with him that limiting the causes of resource conflicts ultimately to greed and economic opportunism is a sufficient account of the underlying factors (like deep-rooted grievances and structural inequalities; often legacies of colonisation) that give a better understanding of the linkage between resource and conflict.

### **2.2.1 Geopolitics and the Resource Curse**

The resource curse debate decouples the role of geopolitical factors in resource economies and governance from the causes of underdevelopment. Thus the debate does not incorporate the impact of the international political system on the resource curse in the so called weak states. Kaldor et al (2007) argues that recent geopolitical competition together with violent predatory behaviour of non-states foreign and domestic actors contribute to the resource curse through their means of getting access to oil rent, be it fair or foul. This also tends to adversely affect the weaker force in the competition. Rent seeking attitudes of states and non-state actors in resource governance ought to be a major concern for any attempt to establish a clear understanding of why there is scarcity in the midst of abundance. Most of the conflicts prevailing in most extractive economies can hardly be disassociated from imperialism, and this dates back to the colonial, post colonial and even (post-) cold war era. Moreover, Omeje (2005) highlights the impact of the IMF and World Bank's Structural Adjustment Program on the conflicts in the West African sub region.

*“Contemporary forces of globalisation and imperial supervision and governance that define the international environment in which postcolonial states operate have in diverse ways contributed to the political and economic malaise of these less privileged states”* Omeje (2005: 14).

Perkins (2004) also reveals how powerful imperial powers interfere and manipulate the economies of weak states in order to gain control and consequently quench their resource



thirst. Powerful foreign entities (states and non state) actors classify certain resources as of important strategic interest in which they employ every means possible to access (Omeje 2008). On the other hand, the role of the efforts geared towards the creation of global political and economic empire(s) by super powers is shockingly ignored in the resource curse debate. The Angolan resource conflict is good example to explain the role imperialism plays in the resource curse. The interest of the two great powers during the cold war motivated the formulation of liberation movements along distinct and competing ideologies in the international political ecology in the ambit of domestic ethnic divisions (Malaquias 2001). These movements were sponsored and supported by imperial powers with strategic interest in Angola.

Again, since exploitation of natural resources especially oil and gas requires huge investment of capital and high level of expertise that the possessing states often lack. Foreign investors easily manipulate the situation. This consequently gives way for the larger chunk of the profit made out of those resources to be sent or invested outside of the producing economies by the foreign oil companies. With this, the situation of the already weak economies are further exacerbated and incapacitated to create jobs, and especially for youth. The result is increasing poverty and frustrations and later on grievances, all part of a recipe for resource conflict. This brings in the complexity of grievances and greed which requires urgent attention of scholars in addressing the resource curse conundrum (McNeish & Logan et al 2012). Thus geopolitical and economic dynamics coupled with historical factors are important factors in explaining the connection between the natural resource and economic development. Hudson (2005) and McNeish & Logan et al (2012) further elaborate the destructive impact the global financial system has on the productive sectors. Thus the activities of the IMF and the World Bank further worsen the economic plight of the developing countries by indebting them to an unbearable degree in order to get significant influence and consequently dictate to them. This is elaborated exhaustively in Moyo (2009) that by the end of the 1980s the cost of servicing loans to Africa (in the form of aid) grew to the extent that it eventually surpassed the inflow of aid to Africa. Both bilateral and multilateral aid agreement between governments to governments and institutions to governments respectively from the late 1980s to 1990s were heavily intensified. Thus the indebtedness of African states increased hugely. It even went to the extent that richer countries gave aid monies to the most corrupt regimes without any hesitation due to their attempt to canvass support during the cold war.

Furthermore, ideological struggles may not be as obvious in recent times as they used to be, but are still subtly alive. This has given the stronger states the impetus to usurp the booty (resources) of the weaker ones. That is such countries try all means possible to secure all forms of essential nonlocal supplies in order gain economic strength to push forward their ideological agendum. The recent activities (resource and land grabbing) of China in Africa and other parts of the world make it abundantly clear how desperate they are in their quest to balance the power (which they have already achieved, though arguable) and subsequently surpass that of the United States in the international political system. Political realists have argued that the international system is anarchical; no central authority to ensure order. Therefore states rely on self-help to secure themselves. In pursuit of national security and interest, states make every effort to gain a reliable source and a constant supply of as many resources as possible. This is what determines their economic and military might and it forms the basis for their relations to others. Consequently, this directly or indirectly forms basis of foreign policy of most states especially that of the super powers. This apparently motivated the establishment of the Bretton Woods institutions to prescribe policies based on economic norms in the context of the western ideologies to the states in the south which further add up to the impediments in the way of their economic progress.

### **2.2.2 Globalisation and the Resource curse**

Globalisation is the process of interaction and integration among people, companies, agencies and governments of different nations commonly premised on trade and investment. Globalisation creates the opportunity for cultural interactions and offers benefits associated with economic integration and free trade. In spite of it not being recent phenomenon, it has gained more significance off late due to the advancement of information technology, civilisation among others. However globalisation still has its adverse effects on the economic development of the less privileged states.

Observation proves that economics has been the primary catalyst for the institutionalisation of these interactions. That is to create a larger market for the production of goods and services. This is also in line with David Ricardo's theory (Ricardo, 1817) of comparative advantage. That is some countries are more efficient in the production of particular goods and services than others. Therefore countries ought to produce the kind of goods and services they have comparative advantage of and trade (or barter) them with other countries. This together with other reasons contributed to the formation of international institutions like IMF and World Bank to facilitate trade by breaking down international trade barriers.

With these the sovereignty of the less privilege states is further weakened and undermined in terms of exercising economic control within their jurisdictions. This has subsequently rendered and continues to render these developing economies more vulnerable and exposed to the unfair competition from the advanced and industrialised countries. Consequently most of the states endowed with natural resources only serve as producers of raw materials to the industrial world. The local industries of these countries are unable to survive the incomparable competitive power of those from the industrial world. States with weak industrial (manufacturing) capacity is unable to create jobs for their people especially the youth. And this has the potential to create social tension and consequently resource conflict if the country in question is endowed with natural resource. This is why free trade is sometimes observed as making people poorer and yet western governments are firmly in support of it and giving out more aid as an incentive for accepting it (Reinert, 2008). However these incentives come with conditions which often create no policy space for the recipient countries.

### **2.2.3 The Lack of Policy Space and the Resource Curse**

Policy space is the freedom to make effective choice among alternatives without any external influence in decision or policy making process. McNeish & Logan et al (2012) agrees with Stevens and Dietsche (2008) that, donor institutions prescribe policies based not on scientific knowledge but rather ideological perspectives. Norms and values (usually western) take precedence over the realities of life in the less privilege states in need of assistance. Thus policies of state and resource governance are fashioned out of normative or prescriptive political and economic principles of how states ought to look like and how they ought to be run (McNeish & Logan et al, 2012). As a result of this, most of the states endowed with natural resources which are usually weak are not given the free hand to operate in their relations with the other states in finding solutions to their domestic socio-economic and political problems. Solutions to their domestic problems are often imposed on them by external actors with little or no idea of the background of the problems in question.

*“...the loss of policy space induced by unequal power relations between donors driven by a common ideological agenda and Sub Saharan African governments constrained internally and externally to depend on aid flows. In other words, much aid from Western donors does not only come with high transaction costs and sometimes significant tying. It also comes with a strong ideological agenda, which may vary across donors in terms of emphasis, but that can ultimately shape policy decisions and processes”. (Oya, 2006).*

Lack of policy space in the weaker states exhibits how the resource curse thesis neglects the differences in the processes of state formation in a historical and cultural context. In this sense policies are formulated in the circles of cultural universalism with strong western-centric ideological backing. Thus specifics of cultural relativism are scarcely incorporated in the dictates of policies handed out by super power nations to the less strong ones especially those in the global south. The structural adjustment Program is a test case of how most states in the southern hemisphere were dictated to in the vacuum of socio-economic, political and cultural dynamics.

*The past two decades have been a particularly turbulent period in the political and economic history of West Africa and indeed the larger continent because of the devastating impact of the World Bank/IMF Structural Adjustment Programmes (SAP) on the resources and capacities of most states to meet developmental challenges and obligations to their citizen(...)*

*(...) most war-affected and conflict-prone countries of Africa have been sorely affected by SAP accelerated decline in economic performance (high inflation, volatile or collapsed exchange rate regime, overwhelming external debt burden and debt servicing obligation, regressive international trade and foreign investment profile, etc) and human development requirements (public health care, safe water and sanitation, housing; land access for rural people, agricultural production and food quality, education, human capital investments and job creation. Omeje (2004 pp9)*

### **2.3 Conclusion**

The above explanation manifests how weak and exclusive the resource curse thesis has been with respect to countries in the south of the globe. There is a strong indication that the possession of natural resource cannot be attributed as the cause of poor economic performance of a state. Whilst there might be a strong tendency towards the linkage between resources and conflict, contextual evidence demonstrates that this is far from a rule. That poor economic growth and conflicts that characterise the states endowed with natural resource cannot be solely attributed to their possession of natural resource. It is in connection with other factors such as the imposition of boundaries which were basically based on exploitative commercial and resource interest by colonial powers have had impact on such states. This has a great deal of effect on the economic performance and origin of conflicts in these states, because the lines of divisions did not consider the interests (frequently conflicting) of the

already existing ethnic groups. All of these come together to exacerbate the economic plight of the states endowed with natural resource. In spite of the negligence of the other causes of the resource curse, there are new approaches to the resource curse debate which is broadening the horizon of these causes. Theories such as rentier space model, territorialisation; nationalisation and indigenisation are trying to bring a new dimension to resource curse debate.

## **Chapter Three**

### **The Norwegian Petroleum Experience**

#### **3.0 Presentation of Data**

Petroleum resource has indisputably changed the economic fortunes of Norway for the better. Norway is recognized as one of the wealthiest nations in world in terms of GDP per capita and capital stock. As a welfare state it offers free education from the basic to the tertiary level to everyone (both nationals and non-nationals). In addition, a compulsory national pension plan offers to its citizens benefits like universal child support, one year paid maternity leave, pensions for widow, widower, disability, old age, rehabilitation and a special attention to the financial and medical needs of the people. These are cited as some of the reasons why Norway is classified as the best place to live on earth according to the human development index of UNDP (2011). This is a manifestation of how rent from natural resources can be utilized to benefit the entire society.

In spite of the success story about the Norwegian economy, the oil industry started as in the present day developing countries with no technological know-how to exploit its own resources. However there were very useful conditions that already existed to have significantly influenced the petroleum activities in a positive direction and these will be discussed below. This chapter takes a flashback on how Norway was, prior to the oil and gas discovery in 1969 and marries it with events after the discovery. Since this study is not immune from the usual practical restrictions of research over a broad field of historical and social experience, the focus will be in the context of educational, environmental and political issues which converge to give a better explanation and understanding of how far Norwegian petroleum experience has come.

#### **3.1 Norway Prior to the Petroleum Production**

More often than not, Norway is seen as one of the few success stories of resource management in the pool of resource producing states. To get a better understanding of this success story, there is the need to take a critical look at how Norway was like before the petroleum exploitation. This highlights the situation that preceded the oil and gas exploitation in order to understand how such conditions have contributed to the petroleum experience and the extent of economic transformation that has occurred due to oil and gas production. It

should also be noted that Norway in the present day is battling with socio-economic problems such as the growing gap between the rich and the poor, surging up of queues for social assistance, drug addition, suicides, racism etc.

By the 19th century the Norwegian economy performed relatively well due to its diversified nature. Maritime expertise, fishing, wood and timber, farming, domestic and international trade were the main stay of the economy. After independence from Denmark in 1814, Norway was above the European average income per capita by 1870. Apparently this was due to the opportunity offered to it by the royal union between them and Sweden at that time. However, it initially (i.e. a few decades after independence) struggled with protectionism from the United Kingdom and international economic recession due to the Napoleonic wars. The economic situation was unstable until 1842 that Norway begun to see significant economic growth by the mid 1870s (Grytten 2010). This success was due to high productivity in agricultural (diversification from arable to livestock production), served as a major port (Bergen) for both domestic and international trade (exportation of fish and timber), significant boom in the Norwegian maritime services and liberalization of the economy. Norway rose to become a great power in shipping services and their sailing vessels freighted goods all over around the world. This accounted for about seven percent of the world merchant fleet in 1875 (Grytten, 2010). Moreover, other sectors like the textile and mechanized industry of the economy also expanded. This economic boom brought about a close partnership between Norway and, Britain, Sweden, Denmark and Germany as her major trade partners.

A few years later, the economic boom was replaced by economic stagnation and depression. Norway depended on the international economy especially the United Kingdom which was then experiencing economic slowdown. As a result, there was a contraction of exports which hugely affected the Norwegian economy. The exodus of Norwegians to the North Americas in the 1880s also contributed to the economic slowdown. Migration to some extent depreciated the labour force of the country and it had negative consequences on productivity. Furthermore the introduction of intentional gold standard adversely affected the Norwegian economy because of its scarcity and consequent high cost at that time. Subsequent adoption of gold standard by Norway in 1874 inflated the Norwegian currency (kroner) making gold expensive relative to silver. In effect there was a contraction of gold reserves and money stocks which further strangled the Norwegian economy.

When Norway became fully independent from Sweden in 1905, the industrial sector of the economy expanded significantly. The establishment of the Norsk Hydro in 1905 was a major cause of the expansion of the manufacturing - industrial sector because it served as a source of hydroelectric power to the industries. This was a great boost for economic take-off between 1905 and 1920.

Again there was another severe economic recession after the First World War (1914) and Norway was affected. However, at the initial stages of the war, the Norwegian economy benefited greatly because of its official neutral stance during the war. This positioned Norwegian merchant fleet strategically to make significant economic gains. The success of the Norwegian ship owners was as a result of the kind of protection they enjoyed from the British during the first years of the war. This was because Norway also in return gave special privileges to the British and its allies at the time of the war. Consequently Germany declared war against collaborating vessels and this affected Norway to a greater extent; there were huge economic losses. These coupled with the post war global recession had serious economic consequences on Norway as a country. The impact was huge because of the openness and small nature of the economy which made it very sensitive to the global economic crises. Norway's major trade partners (Britain and Sweden) were seriously hit by the economic recession which also accounted for the depth of the impact on Norway. The economy was hit so hard that there were a lot of bankruptcies, financial crises and subsequently mass unemployment. Unemployment rate rose from almost one to 8 percent with the manufacturing sector surging up to more than 18 percent in 1919 and 1927 respectively (Grytten, 2010). Unemployment and underemployment grew and stayed high (11 percent in 1933) partly because of the restrictions placed on the movement of the growing labour force to North America by North American countries in the 1920s and thereafter. This perhaps caused the serious labour clashes in 1931.

The Norwegian economy was still struggling to recover when it was invaded by the Germans during the Second World War in 1940. This caused the royal family and the government to escape to Britain. The country's economy slipped into the control of the Germans. Consequently there were great political and economic imbalances which amounted to poorer standard of living among the unemployed, underemployed and employed in the primary sector, domestic service and households.



The postwar era witnessed serious efforts to reconstruct and rebuild the political and economic order. The Labour party which came to office from 1935 was committed to social democratic rule; public sector and centralized economic planning with a reconstruction agenda. Norway was a major beneficiary of the Marshall Aid program (in terms of per capita) after they rejected an aid proposal from the United States earlier on. Four hundred million dollars as part of the marshal aid program was received by Norway from 1948 to 1952. Norway as the highest beneficiary in per capita terms received 136 US dollars per person (Moyo, 2009). The acceptance of the marshal plan was necessitated by the lack of hard currencies to embark on the desired reconstruction. Moreover, Norway joined most of the international organizations (GATT, IMF, World Bank, United Nations, NATO and EFTA). The economic situation was relatively stable with 3.3 percentage growth rate, stable inflationary and low unemployment rates. However, the economic growth rate was not as high as other western European countries. The reconstruction brought about a better social security and even distribution of wealth among the populace in the framework of the Nordic model-welfare states. Therefore, can the egalitarian nature of the Norwegian society be attributed to the effects of World War II? From then there was steady and impressive growth in the midst of institutional fortification. At that time Norway could perhaps be classified as relatively young state with stronger institutions and democratic values.

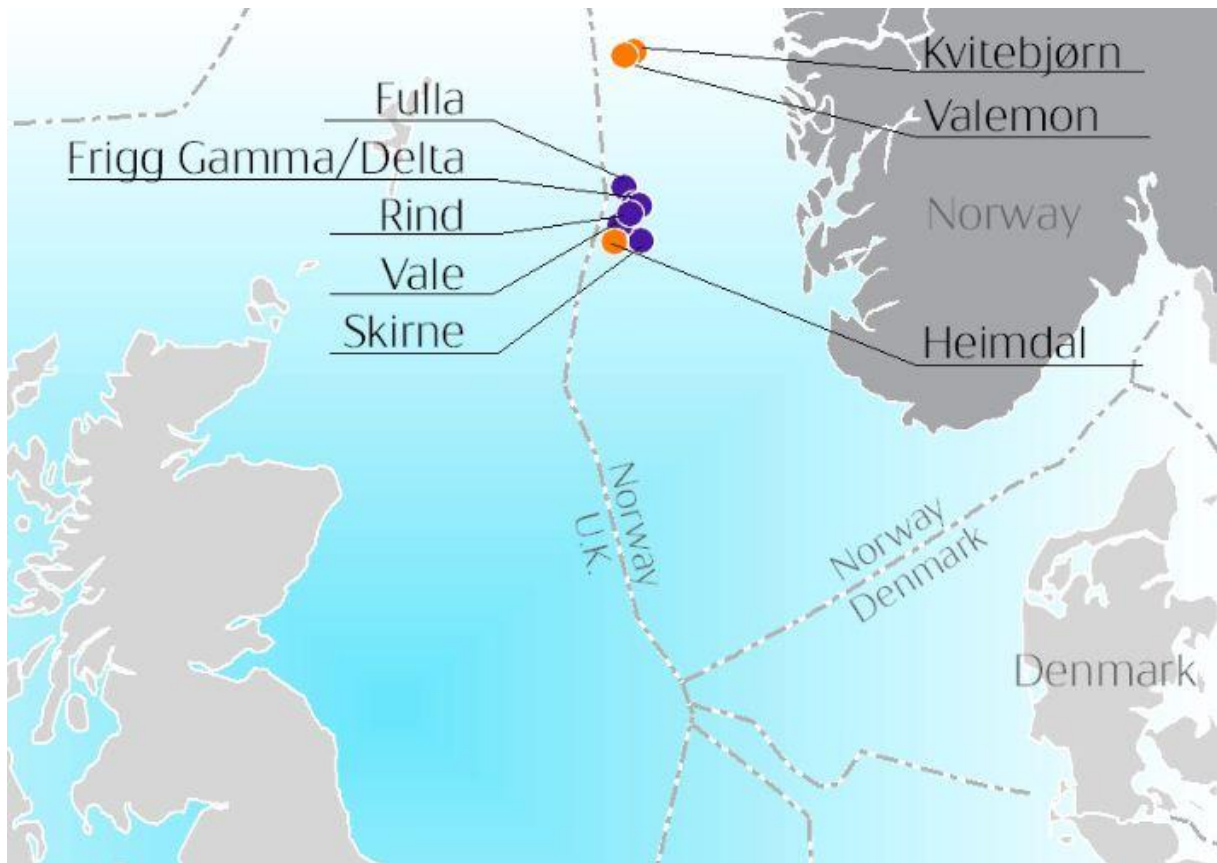
It can be argued that the effects of (the German invasion) the WWII on Norway have contributed to the egalitarian nature of the society. The war had devastating effects and virtually destroyed the economic fortunes of almost all Norwegians. They started afresh from ground zero with a strong national socialist policy in the context of the Nordic model; a Universalist welfare state (i.e. state takes a centre stage in the re/distribution of wealth). As a result, almost all citizens were carried along the developmental process without any significant class difference. However in recent times there have been worrying concerns about the gradual widening of gap between the rich and the poor.

### **3.2 The Norwegian Petroleum Experience and Politics**

The American petroleum company (Philips) arrived in Norway in 1962 to seek license to explore oil and gas in the Norwegian continental shelf. Meanwhile four years prior to that time, leading geologists in Norway had declared that same area as almost impossible to find oil there. So Norway was concerned with how to use foreign interest without missing the target of development since they didn't have the capacity to explore the resources on their own. With this in mind, Philips Petroleum Company was denied securing a monopoly or

central position in the Norwegian petroleum sector. This was apparently due to what had happened to Denmark in giving monopoly to a single consortium to extract petroleum in the prospective Danish continental shelf. Therefore other foreign companies were allowed in, however local participation was minimized (apparently avoided) at that time. Because it was a huge risk for the relatively weaker (financially) Norwegian companies to embark on such capital intensive project without the assurance of success at the end. They could be force out of business if they are unable to make any meaningful discovery. After all, the state will tax the foreign companies when a discovery is made. Moreover the government wanted to avoid too much demand for the local currency due to the capital intensive nature of the exploration and subsequently leading to the appreciation of the Norwegian Kroner, which could consequently suffocate the other traditional sectors of the economy – Dutch Disease. (Interviews with Øystein Kristiansen of NPD and Ryggvik, Helge of University of Oslo; TIK). All these happened with little attention of the general public. Nonetheless, no incident of corruption has been detected from the interactions between the state’s officials and the oil companies’ representatives (Ryggvik 2010).

In spite of the frantic efforts mixed with desperate failures, the discovery of Ekofisk (the then biggest oil field in Europe) was finally made in 1969. Before then, frustrations and disappointments forced several companies out of exploration after 33 wells drilled were dry without any sign of commercial discovery. But before then, Norway saw the urgency to clarify the elasticity of their sovereignty in terms of territory. Border uncertainties had to be settled before there could be any possibility for Norway to collect rent from any resource to be found in that territory. As a result Norway did not rush but rather took time to negotiate with the parties involved (especially with Britain and Denmark) based on mutually benefiting agreement in the framework of the Geneva conventions’ equidistance principles (Ryggvik, 2010).



Source: <http://subseaworldnews.com> 30/05/2012

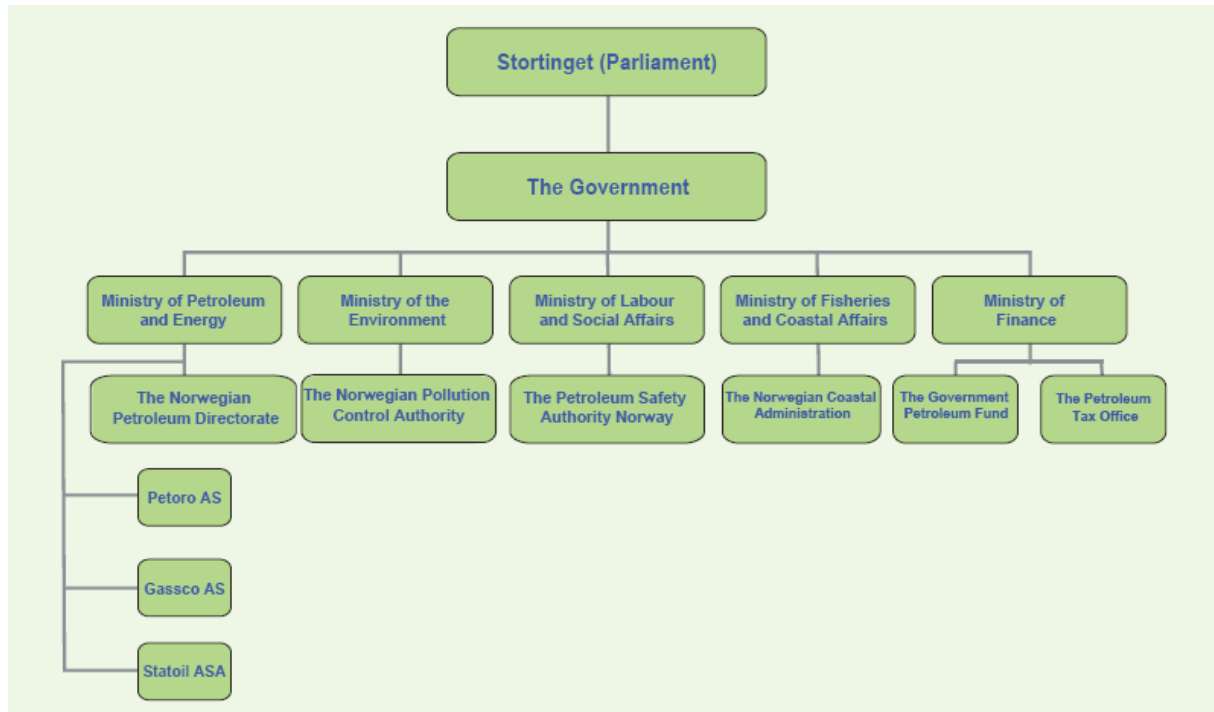
**Figure 1. The Borderlines indicating Norwegian territory with respect to UK and Denmark.**

### 3.2.1 National Control

The issue of national control was not a difficult one to establish due to the already existing law called the Waterfall Act. This was the guiding principle for the government in giving out concession of their hydro power resource. So it was politically and economically prudent to conform to such law in the allocation of concessions with respect to oil and gas resources. This law (The Waterfall Act) required that water bodies and lands along them acquired by private entities will be returned to the state after a certain number of years. This is because the Norwegian waterfalls have been given by nature and must go to the state or the public, but not a private individual or body.

Once the discovery was made in the North Sea in 1969, an aggressive national policy to strengthen Norwegian expertise came to break the foreign hegemony in this important and strategic sector. Consequently, the oil companies were not very satisfied with subsequent allocation of concessions after the Ekofisk discovery. Thus the conditions for the American

oil companies were tightened in favour of the Norwegian interest. From then, issues of oil moved from the confines of the few technocrats (officials) to all layers of the Norwegian society.



Source: Facts 2012, The Norwegian petroleum sector.

**Figure 2. The management structure of the Norwegian petroleum sector**

At that time Norway through the industrial committee of its parliament (Storting) designed in 1971 the *Ten Oil Commandments* as the guiding principles for the petroleum resource management to benefit the entire Norwegian society.

- That national management and control must be secured over all operations on the Norwegian continental shelf.
- That petroleum discoveries are exploited in a way which minimizes Norway's dependence on others for crude oil supplies.
- That new industrial activities should be developed on the basis of petroleum.
- That development of an oil industry must take the necessary account of existing industrial operations and of protecting nature and the environment.
- That flaring of usable gas on the Norwegian continental shelf must not be accepted

except for brief periods of testing.

- That petroleum from the Norwegian continental shelf must, as a main rule, be landed in Norway with the exception of individual cases where national policy concerns call for a deferent solution.
- That the state becomes involved at all appropriate levels, and contributes to a coordination of national interests in the Norwegian petroleum industry as well as the creation of an integrated Norwegian petroleum community which sets its sights both nationally and internationally.
- That a state oil company be established to take care of the state's commercial interests and to maintain suitable collaboration with domestic and international petroleum interests.
- That a pattern of activity be selected north of the 62nd parallel [i.e., outside the North Sea] which satisfies the special policy concerns that apply in this region.
- That Norwegian petroleum discoveries on a large scale could add new dimensions to Norway's foreign policy.

Source: Stortingsmelding 1971 (unofficial translation by NPD 2000)

From the outset Norway was interested in finding ways to gain a total national control over the petroleum activities. Because it saw that it was not enough to only tax the foreign oil companies, there was also the need to create a 100% state-owned oil company which is supposed to be very active and quick to master the required expertise and technology in the petroleum industry. After the Ekofisk discovery in 1969, another significant discovery was to be made in the Brent Sea (Statfjord), since there was a very strong indication of oil find when Britain made a great discovery on their side (boundary line) of the same sea. There was a lot of dissatisfaction among the foreign oil companies because their expectations were not met when the newly established Norwegian oil company (STATOIL) was given 50% ownership of this very promising block. Shell, Esso, Conoco and Mobil got 10%, 10%, 11% and 15% shares respectively. Meanwhile Shell and Esso had tried in early 1973 to secure blocks in the same field after the discovery at the British side was made but were denied. They were a bit relieved once the Statfjord discovery proved to be one of the greatest discoveries in the world, so even small percentages meant huge profit.

Statoil as a new oil company was paired with Mobil in their operations for ten years when Statoil would be fully capable to take charge. This pairing was meant to help Statoil acquired

the technological know-how in the petroleum industry. These were the primary school days for Statoil in petroleum activities (Interview with Kristin Øye Gjerda, *Petroleum Museum in Stavanger* 20/04/12). Meanwhile it took a little over ten years for Statoil to fully take operational control. This pairing was reluctantly accepted by Mobil but for Statoil having the majority share, the richness of the Statfjord field and a clause in the agreement. Fourth round of concession gave Statoil 91% share of Gullfask field whilst it used Esso as an assistant with respect to technology. The other 9% went to Norsk Hydro making it a 100% Norwegian ownership. Again, Mobil was made to give the engineering task on Statfjord B to a new Norwegian engineering firm (Norwegian Petroleum Consultants) based on the pressure from Statoil's share. A similar incident happened again when an originally Norwegian ship building firm (Aker and now Aker Solutions) was also paired with an American company (Brown & Root) in the construction of Statfjord A due to same Statoil's pressure as a result of it being the majority share holder. Due to the Norwegian government's intention to fully benefit from the economic rent from its petroleum resources by exercising high level of national participation, it was keen in exercising some level of protectionism both directly and indirectly.

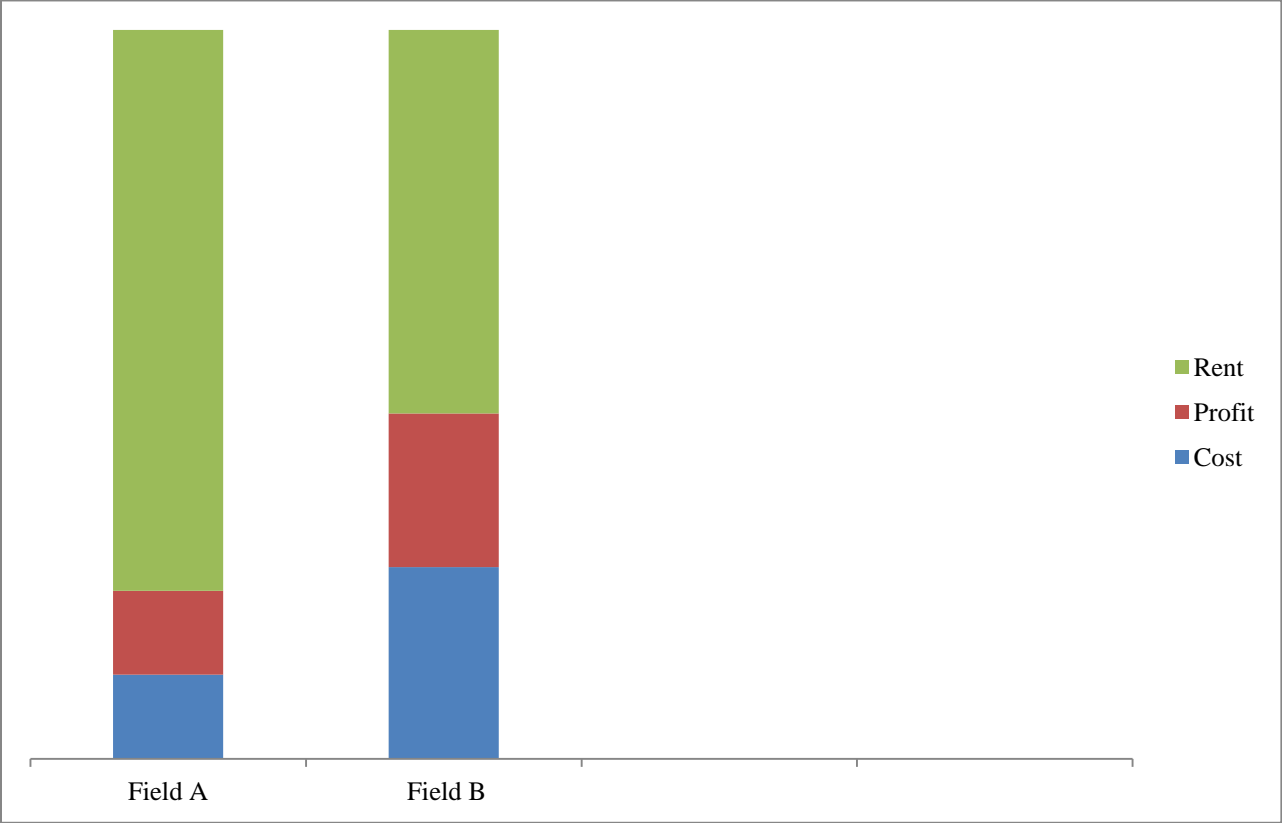
*There was an arrangement that when you( a foreign oil company) took a license you accepted that anytime you made a discovery, depending on the size of the discovery, you had to give the state a part of license which could be higher the higher the discovery. So if you make a giant field discovery then you had to perhaps transfer 50% Of the oil license to the government. And that part was more or less automatically transferred to Statoil. (Interview with Øystein Kristiansen NDP officer in charge of Ghana. 19/04/2012).*

Apart from this Statoil had its own share and still received additional shares anytime there was a discovery. This indicates that Norwegians were aware of how important it was to gain control over the rent that comes out of the exploitation of their oil resource.

### **3.2.2 Minimizing Rent Seeking in Norway**

Rent seeking has been the bane of development caused by natural resource as well as the pathogen for the "resource curse". Therefore there is the need to also present how Norway minimized it. Economic rent is usually appropriated in several ways by both local and external parties involved in the extractive activities. "Rent is the produce which is over what is necessary to pay the farmer ordinary profit" (Reich, 2000 pp166). Though I have already

explained the issue of rent in chapter six of this work, there is still the need to further elaborate it to set the grounds for a better understanding for the subsequent discussions.



**Figure 3 Explanation to economic rent from oil fields**

The diagram above illustrates the theory of rent from two oil fields in a pictorial form. According to this diagram, the green parts of fields A and B are the economic rents which are supposed to go the states that own the natural resource (e.g. Oil and Gas) just because of their right of ownership. Because that is what is left to the people (owners) after taking into account the cost of production (Blue) and the ordinary profit (Red). This must go to the people because it is a gift bestowed on them by nature. But more often than not, countries endowed with such resources do not have the capacity to do the exploitation on their own. Foreign oil companies are allowed to extract at a cost (blue) depending on the nature of the oil field. Since the extractive activities in the oil fields by the companies is an investment which deserve positive returns, they are also rewarded with profits (Red) which is ordinary and a percentage or proportionate to the cost involved in the production.

What usually happens is the rent (green portion) becomes a target of all parties involved (both domestic and foreign interest) which creates a serious competition for it whether fair or foul means. In this sense the foreign oil companies try as much as they can to push their red zone (profit) as deep as possible into the green zone to maximize their profits. A typical example is when Philips (An American Oil Company) wanted to take control over the building of the pipelines that will transport the petroleum products to the European markets from Norway. It would have secured shares of the economic rent from the oil production in Norway by the mere virtue of fact that it owns the pipelines.

It is not only the oil companies but other stake holders like, politicians, bureaucrats, communities, opinion leaders, war lords etc also try to take a swipe at the rent which ought to go to all and sundry ( i.e. the public). This is how stakeholders (parties involved in the oil and gas activities) seek rent at the expense of the people who (actually own it) and naturally deserve to benefit from it. The producing countries are often cheated. A classical example is;

*“State of Alabama v. Exxon Mobil Corp. A suit was whether or not Exxon could deduct production costs from royalty payments as well as deduct gas used to fuel the wells. The contract very clearly stated that they could not. Moreover, internal Exxon memos presented at trial suggested that they were aware of this and that they had conducted cost-benefit analysis of the likelihood of getting caught. The court found for Alabama, awarding 11.8 billion US dollars in punitive damages and 63.6 million in unpaid royalties.*

*While such possibilities exist in the United States, many more possibilities for cheating exist in countries where institutions are weaker.” Humphrey et al (2007 pp.25)*

The resource curse thesis literatures suggest that resource boom usually affects economies adversely in diverse ways. Auty (2001), Le Billion (2004) and Ross (2001) agree that incomes from natural resources tends to create or widen the gap between the ruled and the ruler ( the political elite). This is particularly to countries that do not have stronger and independent institutions already in place before exploitation begins. When institutions of this nature are not in place, there is the easy occurrence of corruption in the form of rent seeking, dictatorship, lack of investments etc. which consequently lead to poor economic growth. Again, Collier and Hoeffler (2002) and Ross (2001) also argue that greediness is a major cause of lack of positive correlation between resource boom and economic development. Individuals who get the opportunity to manage the revenue from these resources enrich



themselves with it at the expense of the general good of the masses. So the problem with development and natural resource is basically rent seeking.

It has been found out that Norway was very much concerned with how to gain the maximum rent it deserves in spite using foreign oil companies. In order to maximize rent on behalf of the state, Norway was quick to create two important institutions i.e. Statoil and Norwegian Petroleum Directorate (NPD) at the very beginning of the exploitation activities. NPD serving as a regulatory body of the petroleum industry, it made sure the activities of companies involved were monitored in the interest of the Norwegian state. It carefully gave out concessions in a way that prevented a single oil company from gaining control over a concession or block. Concessions are deliberately opened for bidding by more than one company to encourage competition and transparency. As a respondent explains;

*(.....) You should not do what you normally do i.e. to have a single licensing group. Production sharing Agreement (PSA) system can also function with three, four partners without problem. Make them non-incorporated partners and independent. Make them control each other. They can do much control exercise much better than you ever can do. (Oystein Kristiansen of NPD, Stavanger; Officer in charge of Ghana and Cote D'Ivoire. 19/04/2012).*

With the several licensing groups, the companies involved serve as a check on each other which takes care of the problem of cost inflation and other illicit activities that reduces the rent of the state. Apart from this, stronger social and political activism to strictly demand accountability and accountability at the time of the discovery in Norway apparently did not give such agents any incentive to seek rent from the oil and gas exploitation. Larsen (2004) explains social norms, transparent democracy, proper monitoring system, an effective judicial system and the wage negotiation system reduced the frequency of rent seeking. This is because people are normally motivated to seek rent when they; feel neglected by the political elites, realize little or no demand for accountability, find weaknesses in the state institutions etc. But at the time of the discovery, Norway had developed its institutions to be very strong and independent through democratic governance.

These together with the creation of Statoil (State-owned Oil Company in Norway) made Norway gain a total control over its petroleum resources. That is Statoil came as major competitor to the foreign oil companies, therefore it gave Norway an alternative and negotiating tool whenever they were dealing with the profit oriented foreign companies. With

Statoil in place the foreign oil companies felt threatened since they could easily be replaced if they demanded too much during negotiations. This apparently reduced the potential of the oil companies to secure rent after the ordinary profit. Also the strict demand for accountability through a strong social and political activism might have been the cause of minimal or no activity identified as corrupt or a rent seeking one. However, Norway was also mindful of how to make sure the money which was generated did not serve as the only source of state revenue and consequently cause Dutch disease.

### **3.2.3 Curbing the Dutch Disease in Norway**

Dutch disease is when boom from natural resource crowds out the other sectors of the economy especially the manufacturing sector. Scholars have observed that resource exports tend to lead to rapid contraction of the non-resource traded goods of the economy of a country. Røed Larsen (2004) explains that the Dutch Disease is intricately linked to factor movement, spending effect and spillover-loss effect. The factor movement is the diversion of factors of production like labour and capital from other activities to resource extraction. The spending effect is an excessive demand for domestic currency borne out of resource receipts which causes the domestic currency to appreciate and consequently making the manufacturing sector noncompetitive. The spillover-loss effect comes as a result of loss of positive externalities (as a result of the crowding out of the other sectors) linked to the non-oil traded goods sector.

I will present and discuss how; the factor movement was limited, the spillover effect was dealt with and spending effect was curbed in Norway.

*i) Factor Movement:* Factor movement could be said to have emerged right after the discovery in Norway. Because some local manufacturing industries like the ship building companies were converted to oil related companies as labour and capital were diverted to the new oil and gas industry. But a closer look at it indicates that the oil boom rather came to save the situation since most of the ship building companies were in deep economic crisis due to the global economic slowdown in terms of trade and lack of competitive power at that time. So the persistent rise in oil prices with high profit margins from 1973 and 1985 were good incentives for labour and capital to be diverted to the resource sector. Nonetheless, Norway being aware of the consequences of high rate of factor movement, it had measures in place to limit it. It had a highly centralized wage negotiation system and income coordinating scheme to have arrested the situation (Larsen, 2004). Thus it made sure the oil industry did not create

any significant wage disparity between it and the other sectors of the economy. Again, employers and employees' unions were encouraged to be aware of the effect of wage negotiations based on their special interest at the expense of the effect on the aggregate economy. This was perhaps done through moral suasion.

*ii) Spending effect:* Since oil booms are usually accompanied by huge spending which leads to appreciation of real exchange rate and consequently, the manufacturing and agriculture sectors becoming noncompetitive. The Norwegian government established a fund (The Pension Fund- Global) to put in check the level of spending the economy can tolerate in order to avoid over heating of the economy. With this fund the surplus income from the oil production is invested outside of Norway to reduce its impact on the Norwegian economy. That is meant to reduce excessive demand, spending and real appreciation. However the fund was not established at the onset of the petroleum exploitation in Norway. Exploitation begun in 1969, the fund was established in 1990 and the first net deposit was made in 1996. This implies the need to reinvest some of the initial incomes accrued from the petroleum resource in strategic areas of the economy to cause positive social and economic impact on the society before surplus ought to be saved.

*iii) Spillover-loss effect:* Usually the appreciation of the real exchange rate as a result of excessive spending, the manufacturing sector tends to be crowded out. In order to cut cost by reducing some of the activities that increase expenditure, the government was quick to substitute the demand for foreign expertise (expatriate workers and technology) with local content. Attention was rightly given to educating local people (Norwegians) to acquire the needed skills across board of the labour stratum of the petroleum industry. Both highly skilled and slightly skilled labourers in the relevant fields were trained in Norway. Because for example if two engineers are hired about twenty vocationally and/or technically trained or ordinary workers will also be required. Therefore attention was given to not only highly skilled labour but also the slightly skilled workers. Emphasis was put on accumulation and progress of technological know-how, knowledge and human capital. Also the economy maintained a diverse export base.

### **3.3 Institutional Building**

Several ministries and bodies were involved in the petroleum activities at the initial stages of exploration and exploitation. Again the political regime of Norway took time to clearly assign

well define roles to various institutions, organization and ministries. However, this did not happen in few years but has gone through several years of experience. After the discovery at the North Sea (Ekofisk), measures were put in place to establish 100% state owned Oil Company to secure and entrench national participation. Parliament (Storting) of Norway resolved to create a state own oil company (Statoil) in June, 1972. This was in accordance with the ten oil Commandments. In this same year parliament again resolved to establish a separate petroleum directorate. Thus; Norwegian Petroleum Directorate (NPD) was in charge of the administration and management of the petroleum resources. It also had the responsibility of serving as a very important advisory body to the state. Thus, it was established to regulate the petroleum activities on the Norwegian continental shelf, however the Norwegian Ministry of Petroleum and Energy has the overall responsibility over the management of the petroleum resources on the continental shelf of Norway. Another state owned body (Gassco) was also established to be in charge of the transportation of gas from the Norwegian continental shelf. Statoil was quick to adapt to the challenges of the petroleum industry and this was perhaps due to unflinching support it received from the state. Sooner than later, it (Statoil) became extremely powerful (in terms of finances) independent state-owned company which was later perceived to be a threat to the state itself. Consequently, the government introduced the State Direct Financial Interest (SDFI); Statoil had to give back to the state part of the ownership in many other fields. This led to the establishment of Petoro to take on the responsibility of managing the share of the SDFI.

It is in the right direction to have institutions with well defined roles in the management of natural resource like oil and gas. However, the mere existence of such institutions cannot bring out the full potential of the resource with respect to economic development due to corruption. Corruption is widely accepted in a significant degree, as the hall mark of the oil and gas business (Humphreys et al, 2007). Due to the huge cash inflow that usually comes with the exploitation of oil and gas, there is always the tendency for the political elites to line their pockets with the economic rent from the resource. This to some extent can be attributed to what Ross (2001) explains as states that depend much on natural resources or other source of revenue like foreign aid are often less accountable to the citizens as a result of little or no taxes from the citizenry. In spite of this, Norway is yet to discover a corrupt practice of such kind (Ryggvik, 2010).

Unlike the others, Norway had a society with relatively higher rate of education at the time of the oil discovery (Interview with Kristin Øye Gjerde, Norwegian Petroleum Museum,

20/04/12) compared to Ghana. At the same time Norway was going through political turbulence; frequent change of government through the ballot (four governments between winter 1971 and Autumn 1973) and general radicalization in the youth culture (Ryggvik, 2010). Due to the high rate of literacy, issues of petroleum activities were of great concern to the general public especially the labour organizations therefore demand for accountability and transparency was high.

Furthermore, the Norwegian economy was, not or less dependent of foreign assistance. Taxes were the main source of state revenue. Therefore demand for accountability was very high from the start. These factors combined with the break of hegemony of the oil companies in favour of the nation state at the time, played a crucial role in shaping the Norwegian petroleum management experience. There was a strong linkage between the society and the government due to activism of individuals, social groups (especially the trade unions and labour organization) and the other political forces like the political parties especially the opposition. These helped mobilize forces to put the political leaders in check. Again, this might have been the cause of the yet to be detected corrupt and the iconic Norwegian petroleum experience.

The first phase of the petroleum activities in Norway was dominated by foreign Companies. Odeco; an American company which owned the rigs and drills used by many of the oil companies was only forced (as they brought experienced workers from Gulf of Mexico) to hire a number Norwegian oil workers. The authorities were concerned about Norwegian jobs from the start.

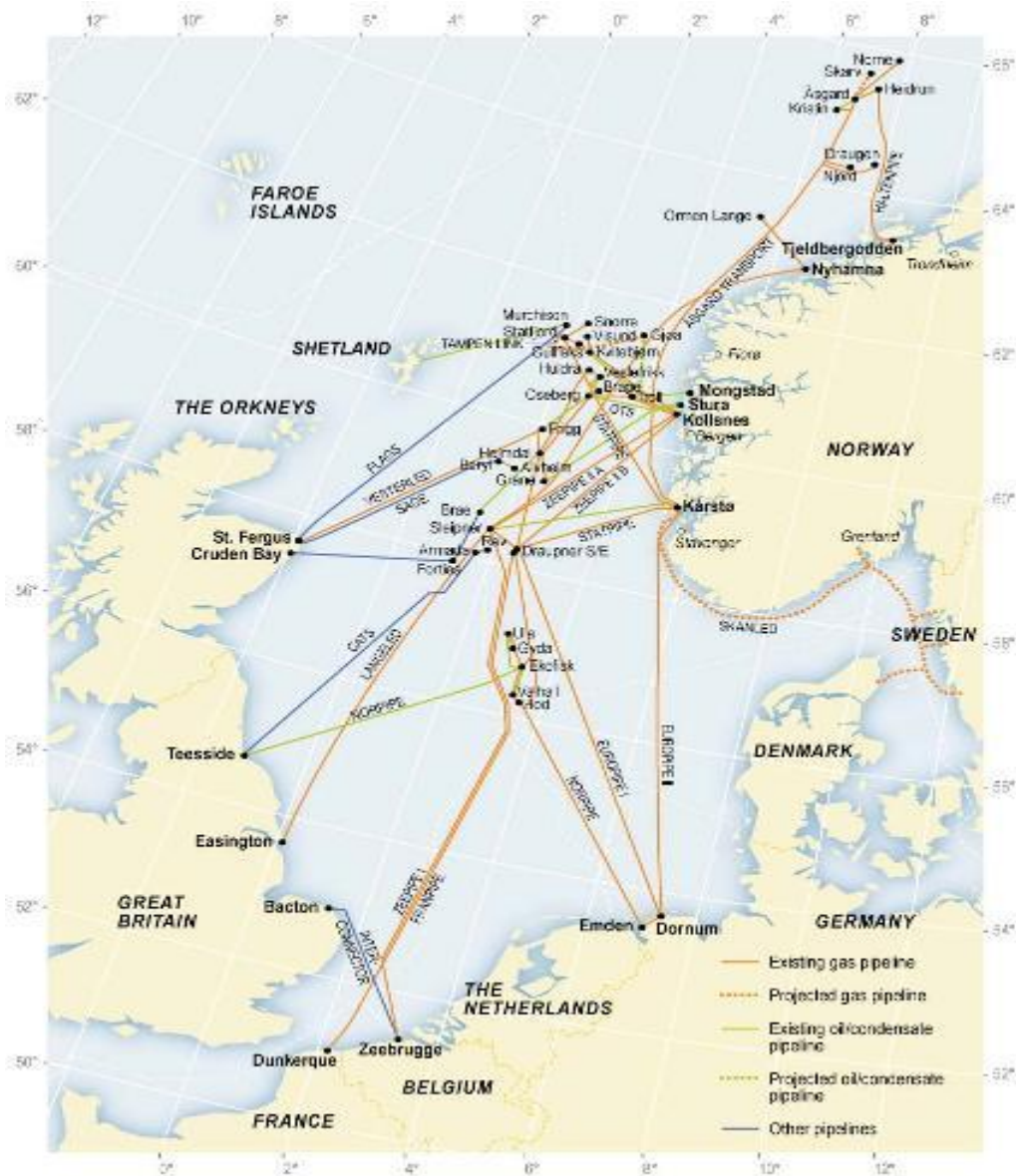
### **3.4 Key Political Decisions**

It is acceptable that several factors must have contributed to the Norwegian petroleum experience. It is also equally important to note that there are some major political decisions or events that might have significantly induced the Norwegian success in the petroleum resource management. It was not for nothing that entourage from the West African state of Benin came to Norway (in 1978) to find out about how it had built independent oil know how within a shortest period of time (Ryggvik, 2010). The following go a long way to explain some of the reasons why Norway achieved an international recognition in resource governance as early as 1978.

- Moderate Pace of extraction. It is not least that Norway now enjoys a role model status in the world of the many petroleum producing states. Many are those who are unable

to resist the temptation of the luxury of quick extraction- huge income flow. The rationale behind the Norwegian decision not to have quick tempo of extraction was to minimize the conversion cost (Dutch disease) of transforming the traditional economy to a petroleum dependent economy. Again, it was also meant to avoid the incidence of having nothing left before the state gets the capacity and competence to exploit its own resource in a efficient manner. This was done by carefully giving out concession in a very competitive and transparent manner. However the current pace of extraction now is not as it used to be in the first two decades of oil production in Norway. Things changed after the establishment of the pension fund in the 1990s.

- Establishment of state-owned petroleum company. The vision of Norway achieving a “qualitatively better society” was to be realized by making sure the rent that comes from the resource goes to the state but not the foreign oil companies. And it was also through the state-owned Oil Company that political decisions could be implemented effectively in balancing the power of the foreign oil companies.
- Securing ownership of the pipelines (Statpipe). It initially seemed impossible for Norway to realize its intension of having most of the petroleum activities happen on its shores (onshore). This relied on the difficulty of laying pipes across the deep water Norwegian Trench from the Ekofisk field in the North Sea. But persistence and confrontational negotiations between the government and the foreign oil companies coupled with quick technological advancement led to the piping of oil and gas by Statoil from Statfjord and Gullfaks fields to Norwegian coastal towns like Kårstø (north of Stavanger), Kolsnes, Stura, Mongstad, Tjellbergodden etc. This was done across the same Norwegian Trench which the foreign oil companies (especially Philips) had argued that it was practically not feasible to lay pipes across. From then, gas has been piped through the Statpipe system to the European market. This further entrenched the total dominance of Norway in its oil and gas activities. This is how the profit oriented foreign oil companies bulldoze their interest through by hiding behind technological arguments during negotiations with respect to petroleum activities.



Source: <http://www.npd.no/Templates/OD/Article.aspx?id=2797&epslanguage=en>  
02/06/2012.

#### Figure 4 Distribution of pipelines from Norway to other parts of Europe

- The creation of The Pension fund- Global. In order to prevent the Norwegian economy from overheating due to excessive spending (cash flow). This fund was established to put in check the level of spending the economy can tolerate. So that the Dutch disease could be avoided by investing the monies outside of Norway. It was designed to carefully separate income generation from revenue use.

- The Tax system. The government of Norway made sure the oil companies only benefited from the normal taxable profits on their investments. Thus the rent from their resources which belongs to the people was safeguarded. An attempt by the government to introduce a calculated tax around 80% (now 78%; with corporation tax 28% and Special tax 50%) was aggressively and loudly protested against by the oil companies, even with a threat of withdrawal. But with the experience the state had gained from its previous negotiations with the foreign oil companies (especially on the pipelines) gave the state enough reason to pursue their interest. Not only did Norway introduce the tax, it made sure the right records (Income and expenditure) are kept. It was keen in making sure no single company owned a concession alone but rather in groups. This was meant to facilitate companies control over each other in a concession group. So that expenditure figures are not inflated to reduce the taxable profits as it is occasionally done by some of the international oil companies.
- High level of Social and Political activism. Since politics is a social game, the level of political activism in the Norwegian society was then extremely high at that time i.e. at the formation stages of its petroleum experience. Such activities in the body politics of Norway converge as a key element to have shaped the Norwegian approach to oil management. Civil organizations like the Labour Union, Oil workers' union, environmentalists etc were well grounded at the time and were very active in the day to day activities of the Norwegian state; therefore the demand for civil rights and accountability was not farfetched. The current nature of the Norwegian petroleum experience can never be elaborated without the mention of the importance of the conflicts between the oil actors and the society. i.e. the society was determined to secure its own power and position in relation to the big companies (Ryggvik,2010 p 113). Several strikes actions by the oil workers took place at the formative stages of the oil industries and the significant one among them is;

*“On May 20<sup>th</sup> 1978, the workers on the Eldfisk platform on the Ekofisk field stopped work, in an illegal wildcat strike. The immediate occasion for the strike was a British foreman struck a Norwegian. Land-based management immediately sent a helicopter to talk the workers down. Instead, the action was intensified. 400 Spanish speaking workers took sympathy action, with a go-slow and refusal to carry out the*



*work the Norwegians should have done. The foreman was transferred,  
but the event was the straw that broke the camel's back”  
(Ryggvik, 2010 p: 67).*

Things could have been different by now if such actions did not take place in the petro-politics of Norway.

### **3.5 The Environment and the Norwegian Petroleum Experience**

Petroleum resource has significant economic importance that can change the fortune of a whole nation in a very positive direction. But the exploitation of it can also come with serious negative consequences on the environment if care is not taken. Petroleum waste can serve as a serious pollutant to the environment; land or sea (i.e. the ecosystem). Environmental degradation caused by substance from petroleum activities are either accidental or deliberate spill from offshore or onshore platforms, pipes, tankers (ships) and emission of gases ( flaring) etc. Such incidence negatively affects lives (aquatic, air and land).

Norway is not only one of the few countries that have used petroleum resource to benefit society immensely, but it's also one of the few countries with best practices of environmentally safety precautions with respect to petroleum activities. It is recognized as the one of the world's cleanest petroleum provinces (MPE 2010 -2011) though arguable. This is due to the strong governmental regulations right from the start of the petroleum production. A lot of wastes are usually generated from petroleum activity like drill cutting, produced water and remnants of chemical and cement from drilling operations but measures have been put in place to make sure that no harmful substance that can affect the environment is released. Consequently, zero discharge target was established in 1997 by the Norwegian government (MPE, 2010 - 2011). Furthermore, radioactive substances were also included in the zero discharge target in 2009. Some of the petroleum activities that cause emission into air are combustion of gas in turbines, flaring of gases and consumption of diesel and other fuels. Gas is re-injected but not flared except for testing. That is, flaring is only permitted for safety reasons. There is a state body (The Climate and Pollution Agency) which is in charge of granting discharge permit for chemicals to be discharged into the sea. The permits are granted

in pursuant to the Pollution Control Act which requires operators to be responsible for establishing an emergency preparedness to respond to an acute pollution. However, there are also state and municipal emergency preparedness in place. Due to these measures total discharges of oil from petroleum activities into the North Sea accounts for about only 5% (FACTS 2012). The Norwegian Coastal Administration is responsible for receiving reports and investigates any cause of acute discharge. But so far petroleum activities have not caused any environmental damage through an acute discharge of oil and gas in Norway. Again the petroleum activity on the continental shelf of Norway is also one of the few with low level of emission or discharge of gases, chemicals and compounds. Authorities and the oil companies have resorted to working together in researching to find technology that can help reducing harmful emissions. This has put Norway at the forefront of using environmentally and climate friendly methods in her extraction. There is an agreement (2002) between the oil companies and the authorities in Norway to use the best available technology (BAT) in a cost effective manner. This has led to shuttle tankers installing Non methane Volatile Organic Compound (nmVOC) reducing technology. Now this technology helps to reduce emission from loading by 70%. A tax system has also been set up to reduce emission of gases CO<sub>2</sub> and NO<sub>x</sub>. Companies are taxed based on the amount of tones emitted.

Though Safety and environmental issues were of major concern to authorities (politicians and civil servants) it did not take precedence over the turbulent and construction phase of the petroleum activities of the initial stages. It took a bit of time for regulations to be put in place. It was until 1978 that regulations for divers in the oil sector was established, however safety framework had already been established by parliament in 1966 and that was even before the first rig was drilled. Thus it is not as if Norway started off on a note of excellence with respect to safety and environment. There have been bad times for the Norwegian petroleum sector when it comes to safety matters. Incidences of catastrophe are not uncommon but not prevalent in the petroleum history of Norway. Between 1965 and 1978 82 workers had died of petroleum related activities with the development of Ekofisk alone taking 45 lives (1971 to 1977) Ryggvik, 2010. Again, the loss of control on the Bravo platform of Ekofisk by Philips during drilling led to an 8 day oil spill in 1977. This fortunately did not cause any serious disaster like what happened to USA in 2010. The most traumatic and unprecedented accident in the Norwegian petroleum history was in March, 1980. This happened on the Edda field of Ekofisk when the *Alexander L Kielland* accommodation rig was hit by disaster (capsized upside down within 24 minutes) in a very bad weather ( freezing cold) and killed 123 people

whilst 83 survived ( The Petroleum Museum, Stavanger). This is popularly known as *The black days* in the Norwegian oil history.

All these come together as lessons to have shaped the experiences of Norway in the context of petroleum activities. It is not the case that Norway got everything right from the start but has gone a long way in adjusting to itself to the necessities of situations and times. Whilst environmental and safety concerns took a central position at the parliamentary debates, Norway still struggled with the enforcement of the Working environment act. There were struggles between the government and the oil companies as to who was to bear responsibility of regulation. Finally, a consensus was formed between the Working Environment Act, Pollution Act and issues of self regulation by oil companies. These and other several challenges were those that confronted the people of Norway with respect to environmental and safety matters.

### **3.6 The Norwegian Petroleum Experience and Education**

Petroleum discoveries often heighten the hopes of the citizenry when it comes to employment opportunities. But the employment opportunities the petroleum activities offer require skills which are diversified in nature. Thus it requires high level of expertise (engineers, geologist, accountants, economists, computer engineers etc) as well as other services providers. Therefore there is usually the need for states to direct or redirect the focus of their educational system to suit the demands of the new industry whenever there is a commercial discovery. If this is not done properly, the state often ceases to fully benefit from the opportunities the new industry (petroleum) usually brings about. It is in this background that education plays a decisive role in making sure resource does not become a curse but rather a blessing.

The issue of local content was in focus in the very early stages of the petroleum activities in Norway. The aimed was at 70% local content. But before that could be realized there was the need to have an educational system that could supply the required skills to the new national petroleum industry. It is for a fact that Norway had an existing (shipping) industry that was less difficult to transform itself to adjust to some of the needs of the new petroleum industry. Therefore the discovery came as good news for the shipyard workers like welders, divers, engineers and so on. Employment readily came to such people when most of the Norwegian shipping companies sought for contracts in the prospecting rigs. Several rigs were built in the shipyards along the coast of Norway.

But that was not enough for Norwegian workers to rise to the strategic positions to necessarily augment national control. It was quite uneasy for Norway to find local experts to occupy various positions of the newly established industry due to the limited nature of the Norwegian know-how in this particular area, therefore American experts were hired. The recruitment was carefully made to make sure these people had no connections with Mobil (Ryggvik, 2010). It was in this background that a strong national support for training in petroleum-related courses and the establishment of state research institutes were created. The educational system was also quick to adapt to the necessities at the time. The technical college of Trondheim (NTH) introduced engineering courses to meet the demands of the new oil industry especially Statoil. Also, universities of Oslo and Bergen shifted the focus the researches of their geology departments from bedrock which was peculiar to Norway to sedimentary rocks where oil could be found (Ryggvik, 2010).

Not only did Norway focus on higher level of education for the highly skilled personnel in the new industry, it also gave an equal priority to training of middle and low level workers like electricians, plumbers, welders, drivers etc. These levels on the employment stratum are what offer larger portion of employment to the people. The middle, lower level workers and other services providers were all important in ensuring that the local content ambition was achieved. The first Norwegian company to have secured a contract in the petroleum industry was a catering company from Oslo (Christiana Dampkjøkken), Ryggvik, (2010). As Oystein Kristiansen of NPD in Stavanger noted in my interview with him, that Angola for instance import such low and middle class workers like plumbers, electricians, welders, carpenters etc from outside looking at the years they have been producing oil. Meanwhile it doesn't take longer time to train the local youth (who are usually idle or lack employable skills) to get them jobs in the petroleum industry instead of them being used as agents of conflicts. This conforms to Collier's argument that states with quite a number of idle youth who are (unemployed) are easy to degenerate into wars/conflicts, because they are easily lured into conflicts with little or even with no incentive.

This is not say that this is strictly the way to go when it comes to making sure that states endowed with petroleum resource fully benefit from them. But huge lessons can be drawn from them since every country has got its own experience. Ghana for instance has gotten its own developmental agenda in the framework of particular historical and political experience. With this what lessons are there for Ghana as a petroleum producing state to learn from? The

chapter below takes a look at Ghana in terms of how such lessons from Norway could be drawn to assist Ghana in its oil and gas activities.

### **3.7 Conclusion**

The Norwegian petroleum experience has been shaped by several incidences. Basically it seems difficult to secure the greatest possible share of oil rent by most of the producing states which are usually at a weak negotiation positions at the time of discovery. This is due to the fact initial stages of exploitation are normally dominated by foreign (interest) investors. It is in this light that, Norway designed policies to make sure the foreign oil companies which invested their technology and capital only earn the average rate of profit.

In all, it is definitely not wrong for a country endowed with oil and gas resource to look up to Norway as a model in making sure that such resources turn out to be a blessing but not curse. But this must be done with some level of meticulousness due to the dynamics of the various settings and times. It is also incontrovertible to accept that the Norwegian petroleum industry offers experiences which are universally valuable. However some of the decisions and actions of the Norwegian government in the early stages of their petroleum production (1970s) can hardly be replicated in recent times. A classical example is the compatibility of the Waterfall Act of Norway with EEA (European Economic Area) Agreement was challenged in the EFTA (European Free Trade Association) Court in 2007<sup>1</sup>. These are some of things which render the Norwegian petroleum experience as what I called “not an already made formula or recipe” for the avoidance the so called resource curse in the context of the current phenomenon called globalization or what I call “supranationalism”. Again the difference in the geopolitical ecologies of Norway and any other country especially Ghana must be put in a context of time whenever there is an attempt to use Norway as model.

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<sup>1</sup> ([www.eftacourt.int/images/uploads/PR05\\_EN.pdf](http://www.eftacourt.int/images/uploads/PR05_EN.pdf) Accessed 14/11/12).

## **Chapter Four**

### **Ghana in Perspective**

#### **4.0 Introduction**

The African continent, specifically West Africa is one of the richest regions in the world in terms of natural resource abundance. Gold, diamond, manganese, bauxite, petroleum etc are some of the resources the West African region is endowed with. At the same time, it is also one of the volatile regions with respect to conflicts, wars, hunger, diseases, poverty etc. The causes of conflict are diversified in nature. It ranges from historical animosity, colonial legacies, forces of globalization and global governance, post-colonial realities and external agencies (Omeje, 2005). Again the Atlantic slave trade is one of the phenomena that have had a devastating effect on the political and economic architecture of the people of the West African societies. There has been the experience of terrible political instability within states in this particular region. Thus from multi party democracy just after independence, through to military and one party dictatorships and later back to multi party democracy. These are the experiences most of the states in this location can hardly disassociate themselves from. Ghana as a major player in the political and economic affairs of Africa is never an exception to these turn of events.

This chapter takes a deep look at the political and economic history of Ghana. This will bring to bear the Ghanaian politico-economic realities in order to help contextualize the petroleum experience of Norway in the Ghanaian situation in a better manner. It will highlight the resource management style of Ghana that is relevant to the management of the current petroleum boom and as to what lessons can be learnt from it. How and when Ghana started exploring for petroleum resources will also be addressed.

#### **4.1 The Ghanaian Petroleum Experience**

The news of the discovery of oil in commercial quantities in 2007 was welcome with mixed reactions. The experiences of countries like Nigeria, Angola, Equatorial Guinea etc are usually juxtaposed with the advantages of production of petroleum in commercial quantities. Consequentially, Ghana is keen in making sure that lessons are learnt from those negative experiences in order to fully benefit from the possible advantages of oil and gas production. It is the desire of Ghanaians to break the cycle of the presumed resource curse phenomenon that has been denying most African countries the very benefits of the resources in their disposal.

Ghana as a petroleum (oil and gas) consuming state has a long history of consistent attempts to change the situation to become a net exporter. Unsuccessful explorations attempt were made in the Tano Basin (now the western region of Ghana) as far back as 1896 (Boateng, 2008). Lack of better technology and little geological knowledge then, led to the failure to make any discovery in the oil and gas seepage basin. Hopes were again revived in the 1960s by successive governments in their quest to find petroleum in commercial quantity. But no success was registered until the establishment of Ghana National Petroleum Cooperation (GNPC).

In 1983, GNPC was established by the Provision National Defence Council (PNDC) Laws 64 and 84. The PNDC Law 64 mandates the GNPC to undertake petroleum exploration, development, production and disposal. This led to the discovery at the Saltpond Fields with the current production capacity of about 600 barrels per day. The GNPC operates with the support of the PNDC Law 84 in establishing the legal framework in guiding the contractual relationship between the State, GNPC and prospective investors in the petroleum industry.

With this, though slow and sporadic but consistent attempts were made in the discovery of petroleum in larger quantities. It was in June 2007 that the people of Ghana were informed about the positive results of agreement signed in 2004 between the Ministry of Energy of Ghana and Kosmos Energy HC and its partners. The estimated recoverable reserves of the Jubilee Field were over 370 million barrels. Its location is 60km offshore between the Deepwater Tano and West Cape Three Points blocks.



**Source:** <http://crossedcrocodiles.wordpress.com/2009/07/16/ghanas-jubilee-oil-field/>

Accessed: 28/02/2012

**Figure 5 Borderlines of the Ghanaian territory and the oil fields.**

The equity of the two main oil blocks among the partners in the jubilee field are distributed as follows; The Deepwater Tano Block: Tullow 49.95%, Kosmos 18%, Anadarko 18%, Sabre Oil and Gas 4.05% and Ghana National Petroleum Cooperation (GNPC) 10%.

West Cape Three Points; Tullow 22.9%, Kosmos 30.88%, Anadarko 30.88%, Sabre Oil and Gas 1.85%, GNPC 10% and EO Group 3.5% <sup>2</sup>

Since Ghana joined the pool of oil producing countries, there have been attempts to search for the best management practice in the petroleum revenue to avoid the mistakes of most of the oil producing states. As a result of this, Acticle 815 (The Petroleum Revenue Management Act) was passed by the parliament of Ghana in 2011. This is to ensure the collection,

<sup>2</sup> ([www.offshoretechnology.com](http://www.offshoretechnology.com) ).accessed 28/02/12



allocation and management of petroleum revenue in a responsible, transparent, accountable and sustainable manner to benefit the citizens of Ghana. Ghana enjoys status of a core member country of the Norwegian Oil for Development program (OfD) within the Norwegian Agency for Development Cooperation (Norad) under the auspices of Ministry of Foreign Affairs. The cooperation between these two states is meant to transfer knowledge on environmental and resource management.

## **4.2 Political Overview of Ghana**

Ghana is the first country in the south of the Sahara to have gained independence from the British on 6<sup>th</sup> March 1957. Before then, Ghana (the then gold coast) served as a battle ground between the 15<sup>th</sup> and 20<sup>th</sup> centuries for several European countries (Portuguese, Dutch, Swedes, Danes, Prussians and the British) in their power struggle to secure natural resources. The British finally came to stay as the colonial masters of the then gold coast in the middle of the 19<sup>th</sup> century. Ghana was called Gold Coast due to its large and heavy deposits of gold resources in the land. This apparently was the cause for the struggle of the numerous European countries to gain control over that land.

A sovereign state with a very strong imperial tradition dating as far back as the 15<sup>th</sup> century is a key characteristic of Ghana at the aftermath of independence. There have been major setbacks as a result of intermittent coup d'états sprinkled with civil democratic regimes few years into post-independence democratic era. Right after independence of Ghana in 1957 to 1981, Ghana witnessed not less than eight successive governments of which three were civilian and five military rule (Mills et al, 2001). The administration of a Pan-Africanist and a leader of a political party (Convention Peoples Party, CPP), Osagyefo Dr. Kwame Nkrumah was toppled in a military coup d'état on 24<sup>th</sup> February, 1966. This was the first of its kind and an unfortunate incident in the Ghanaian history and it is alleged to have been sponsored by the American's CIA, according to declassified documents. This again highlights the kind of influence the stronger nations have on the local politics of the relatively weak or fragile states in Africa. Since then, Ghana's political story had been a checkered one. After the overthrow of the six year rule of Osagyefo Dr. Kwame Nkrumah in 1966, a democratically elected government of the Progress Party (PP) led by Dr. Kofi Abrefa Busia was installed in 1969. Another coup d'état was witnessed in 1972 which truncated the democratic process again. These incidences continued intermittently until the last successful coup d'etart came to stay in Dec 1981. Jerry John Rawlings as a military ruler from 1981 changed into a civilian ruler in 1993.

Since December, 1992 Ghana as a state begun to focus uninterruptedly on building stronger institutions premised on vibrant democratic values. Since that time there has been smooth transitions of power between the two major political parties in Ghana. Jerry John Rawlings led National Democratic Congress (NDC) won the 1992 and 1996 general elections. The National Democratic Congress lost power after a two successful four year democratic terms of office to the strongest opposition party in the 2000 general elections. The New Patriotic Party (NPP) led by John Agyekum Kuffour enjoyed a smooth transfer of power from the then incumbent NDC government in January 2001. It was from this time that sceptics of the strength and the durability of the Ghanaian democracy were proven wrong. The sceptics could not have been blamed much because of the historical unfolding that had established more than necessary evidence to convince them of how coup d'état were so intermittent in the political culture of Ghana. It was until 2008; the end of term of office of John Agyekum Kuffour, that the John Evans Atta-Mills led National Democratic Congress again won power from the then incumbent New Patriotic Party with a very narrow margin of less than one percent of the total valid votes cast in a run-off elections. This to a greater extent brought Ghana to a position to catch attention of the world as a model for Africa in terms of democracy. Also Ghana is one of the few African countries to have changed from military regime to a civilian one without any conflict or bloodshed. These were the words of Barack Obama (the US president) in support of this;

*The people of Ghana have worked hard to put democracy on a firmer footing, with peaceful transfers of power even in the wake of closely contested elections. And with improved governance and an emerging civil society (...)*<sup>3</sup>

A blend of both parliamentary and presidential system of government is what Ghanaians live with, in their political lives. Contrary to the presidential system where ministers of state are solely appointed out of parliament, and parliamentary system where they are appointed in parliament, Ghana's appointment is done in and out of parliament. But in the case of Ghana majority of the ministers must be appointed from parliament. This therefore creates a serious link between the executive and the legislative arms of government.

Ghana shares borders with Burkina Faso to the North, Ivory Coast, Togo and the gulf of guinea to the east, west and south respectively. Ghana is located on the west coast of Africa

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<sup>3</sup> (<http://www.huffingtonpost.com/2009/07/11/obama-ghana-speech-full-t n 230009.html> ) accessed 04/09/12

with a population size of 24,223,431 people (Provisional results of population census Ghana Statistical Service, 2010) with 2,500 dollars as per capita income<sup>4</sup>. Out of this population women constitute 51 percent (12,421,770) and 49 percent (11,801,661) of men. The people are diversified into about 75 ethnic groups with the Akans forming the majority of 49%, Mole- Dagbani 16%, Ewe 13%, Ga-Adangbe 8%, Guan 4% and others 10%. There are over 70 spoken languages but only nine are officially recognised with English as the official language. Its major exporting commodities are Cocoa, timber, Minerals (gold, diamond & others) etc and imports include Petroleum, food, Machinery etc. Ghana as a state is heterogeneous with occasional tribal and chieftaincy conflicts. Most of the tribal conflicts occur in the three poorest regions in the northern part of Ghana.

Ghana is divided into ten administrative regions with 170 districts out of which 6, 40 and 129 are metropolitan, municipal and district assemblies respectively. This is an attempt to decentralise the government system to the local level in order to facilitate development and entrenchment of democracy. This was introduced in 1989 with the passage of the PNDC Law 207. This was meant to decentralise governance to the local people to improve participatory and self governing democracy in Ghana.

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<sup>4</sup> ([www.indexmundi.com](http://www.indexmundi.com) 17/02/12)



Source: [www.mapsoftworld.com](http://www.mapsoftworld.com)

**Figure 6. The political and administrative map of Ghana**

The political environment of Ghana is severely polarized between the two major political parties; NPP and NDC. This arguably, can be classified as an ethnic tension which apparently

can be attributed to the fact that some view the NDC as an Ewe ( or non-akan) party and the NPP as largely an Asante or Akan party (Mills et al, 2001). The parliament of Ghana is one of the strongest on the African continent whilst the entrenchment of the Ghanaian democracy can never be elaborated without mentioning the vibrant nature of the media landscape. The repeal of the criminal libel law in 2001 to a less harsh one has mitigated the vulnerability of media personnel from extremely harsh law suits.

### **4.3 The State and Politics in Ghana**

As a sovereign state Ghana has strong democratic credentials in spite of the ugly political past experience. It is still in the process of nation building in terms of infrastructure and institutions. The aspirations of Ghanaians are believed to be achieved through institutional capabilities under the auspices of democracy. Are these intuitions responding to the expectations of the people? Ghanaian institutions are more often than not seen (especially those not in government or opposition) as pro government. This tends to affect the trust people have in them. However the government also complains about the verdicts (loss of cases) of the judiciary in recent times. This an indication that some of these institutions are gradually weaning themselves off government influence, however there is more room for improvement. Stronger or high-quality public institutions are necessary for resource management in order to get the maximum value out of natural resource of a state (Humphreys et al 2007). With this, incidence of corruption can significantly be minimised. Ghana is not an exception to the worst victims of political corruption as a post colonial African state. The words of Gyekye (1997) indicate that political corruption causes a serious financial leakage to most developing African states which erodes their developmental efforts.

This to some extent partly explained as result of the colonial legacy. During colonization, there was a great difference between the colonized (masses) and the colonizers (the elites). Here the few foreign colonial masters who established the political institutions in these states recognized themselves as distinct from the ruled. Therefore there was no need to go down low to the levels of the ordinary or the ruled except when they needed their assistance. The mentality of this master-servant relationship was entrenched during the colonial times because the agenda set forth by their pay master was to acquire (rent seeking) wealth but not to build states.

*The result of the exploitative activities of the colonial government itself and European firms (especially cocoa buying, banking, shipping, and mining)*

*was that when the British finally pulled out of Ghana in 1957, they left behind a country which bore all the most important features of underdevelopment. In particular, it suffered from an acute form of structural dislocation. Production and consumption were not integrated within the country but through external trade. (Konadu-Agyemang, 2000).*

The local people who have taken the places of the colonizers (political positions) refuse to come to terms with post-colonial realities. Some still continue to behave like the colonial master whose business was not to build the colony state but to seek rent out of the booty of the state. This portrays sense of loss of shared responsibilities and patriotism in the nation building. This has apparently led to the winner takes all politics; *our time has come politics or politics of the belly* in Ghana. There is general perception in Ghana that politicians are a group of (no matter which political party one belongs to) people who get their ways into government to enrich themselves at the expense of the ordinary people. This is because the ruled do not recognise their interest being addressed to the least of their expectations. But rather, politicians' needs are always addressed with prompt attention. Example is the most talked about car loans and accommodations that are quickly made available to members of parliament (MP) and ministers of state among other things. Such are some of the incidences that bring about occasional political tension in Ghana. In spite of this, there has been a gradual erosion of such gap between politicians and the masses. The cause of this situation can be attributed to the fear of loss of power after elections organised in every four years.

Is Ghana's current political topography ready to meet the expectations from the oil boom that has raised hopes of the people? The discovery of petroleum in 2007 has generated a lot of excitement about the potential it possesses to bring about a quantum leap in development and wealth creation as well reduction in poverty. But if the political structures of a state refuse to create a better linkage between them and the people, there looms a great danger ahead of that particular nation. Thus dashed aspirations can turn into grievances and consequently something undesirable. Previous studies indicate that states that mostly depend on revenue from natural resources like oil and gas' sales tend to be less dependent on the citizens due to little or no tax from the citizens which creates a weaker relationship between those governments and the people (Karl, 1997). In such instances, the indigenous people who endure the cost of extraction and unusually share the benefits are more often than not ignored during negotiations. Negotiations are carried on between the political elite and the extremely rich oil companies. This therefore ends up in anger generated out of perception of complicity

and corruption. There are several events to prove that political frustrations easily emerge in countries and communities where production of natural resources occurs (Humphreys et al, 2007:13)

#### **4.4 Political Corruption in Ghana?**

Political corruption recurrently raises its head in almost all politically organised human institutions; rich or poor, weak or strong, developed or developing, ancient, traditional or modern ( Gyekye,1997). It unacceptably suffocates the developmental life of most states especially those in Africa who are boastful of possessing most of the assets needed to trigger development. Political corruption is not an individual using the wealth of private enterprise to enrich him/her self and the cronies. But it is the situation in which one uses public; office, resources, fortunes etc to benefit him/herself, family and friends instead of the people, community and the state.

According to the transparency international's corruption perception index, Ghana is ranked 69<sup>th</sup> (3.9 points) out of 184 countries. This is an indication that there is need to improve greatly in order to make sure the revenue from the petroleum resource is secured from the few selfish individuals. If more punitive measures are not attached to the already existing laws against corruption, it is equally better to let the resource remain in the grounds. This is because the perception of corruption has turned into a shocking and outrageous reality as the aftermath of the sensational revelations by a renowned investigative journalist, Anas Aremeyaw Anas. In his videos telecast on both local and international (Al Jazeera) television stations, private and more seriously public officials are observed in complicit acts, (involving huge sums of money) which obviously have a terrible impact on the fortunes of the Ghanaian state.

Over the past 100 years the global oil industry has been the most relevant one due to its strategic military essence. For this same period it has been the most widely sold commodity in the world (Ryggvik, 2010:8). This goes a long way to prove how much cash flow is involved in the petroleum production activities. This calls for the need to create unfavourable grounds for corruption to flourish at where these FOC operate. As Humphreys, Sachs and Stiglitz make it clear in their *Escaping the Resource Curse* that corruption at high level brings about conspicuous political risk that can emerge from natural resource abundance. Thus the availability of large financial assets in space of time avails the opportunity for political leader to steal from it.

When the corrupt opportunities oil and gas production offers to politicians and public officials are not reduced to the bear less minimal level, the hope of the ordinary Ghanaian would be dashed into a more hopeless and desperate situation. Taking into consideration the graduate unemployment rate in Ghana, Collier (2002a) assertion that idle youth can easily be used to seek rent (greed and economic opportunism) by few selfish individuals would be confirmed if care is not taken.

#### **4.5 Economic Overview**

Dependency on natural resource is one of the major features of the Ghanaian economy. Prior to and after independence it served as a hub of gold, timber and cocoa exports. With per capita income of US\$170 right after independence classified Ghana as one of the wealthiest nations in the tropics. Ghana was ahead of The United Kingdom and Nigeria in terms per capita income (Gocking, 2005). Meredith (2005) also points out that Ghana as a newly independent state started off very well with independent judiciary, efficient civil service, prosperous middle class and outstanding leader; Osagyefo Dr. Kwame Nkrumah. Most of Ghana's physical and social infrastructures were built in the first decade after her independent. It as well had 481 million dollars in foreign reserves (US Department of State). In spite of the bright start after independence in 1957, it dropped to be one of the economically weak states in the world in the late 1970s & 1980s. Ghana's economic shocks usually emerge out of the fundamental vulnerability to the unstable nature of the prices of its major exports (cocoa and gold) coupled with upwards movements of oil and gas prices in the international market.

The economic history of Ghana has been a difficult experience. This apparently can be attributed to the successive coup d'états that occurred in its political history especially from the mid 1960s to the early 1980s. A consistent economic growth relative to the previous years was witnessed in a decade after 1980 and this was apparently due to the stable political atmosphere at that time. But over the past two decades, good governance, democratisation and, political and economic stability accumulate to contribute to the robust nature of the Ghanaian economy in recent times. With the growth rate of 6.6 percent in 2010, the World Bank projected the economy of Ghana as the fastest growing economy in sub Saharan Africa at the rate of 13.4 percent in 2011( Government of Ghana Official Portal). Again, Ghana is among the few developing countries to have achieved the Millennium Development Goal (MDG) of halving poverty by 2015. Ghana has been able to achieve this in advance of the



2015 deadline (Asafu-Adjaye, 2009). Though Ghana has recently been declared a middle income country, a sizeable amount of the citizens are still poor.

Ghana has transformed from oil importing state to a net exporter. This has induced serious international and domestic financial interest and has subsequently attracted investments from foreign oil companies i.e. Tullow Ghana Limited, Kosmos Energy, Anadarko Petroleum Corporation, Sabre Oil & Gas Limited and the EO Group.

#### **4.6 The structure of the Ghanaian Economy**

Agriculture, Industry and Service are the major sectors of the Ghanaian economy according to Ghana statistical Service (GSS). Until very recently the agriculture sector paved way for the service sector to assume a leading role in economic development in terms of contribution to GDP (Asafo-Adjaye, 2009). Relatively, Ghana's industrial sector is developed with respect to other African states. However there is space for value addition to its agricultural products and other raw materials. Industry accounts for about 18.6 percent whilst agriculture and service sectors contribute 29.9 and 51.4 percent to GDP respectively (GSS, 2010).

The major source of foreign exchange in Ghana is the exportation of cocoa and gold as well as the remittances from nationals abroad. The fall of commodity especially cocoa and gold prices coupled with the upwards movement of oil and gas prices in the international market and the fear of oncoming elections by the then ruling party (NDC) in the year 2000, apparently incapacitated the government to take realistic prudent economic measures.

This probably led to the rise in inflation to 40.5 percent with growth rate of GDP at 3.7 percent. After the elections in 2000, the Ghanaian economy was resuscitated with 6.3 percent growth rate of GDP and 10 percent rate of inflation by the year 2007. Currently, Ghana is enjoying an impressive economic performance with a growth rate of 7.1 percent (GSS press release in Sept.2012). This coupled with the democratization have made Ghana gained recognition in the international community as one of promising African states. Due to this Ghana is now a core member state of the Norwegian Oil for Development Programme.

#### **4.7 The Ghanaian Gold Experience**

It is important to bring to fore the experience Ghana has had with production of gold due to some of the similarities it shares with petroleum resource. Some of the commonalities are; both are natural resources, non-renewable, high technological know-how is required to exploit

etc. The tradition of gold mining in Ghana had been in existence centuries before independence. But the question I try to answer briefly is how have Ghanaians benefited from their gold? Despite Ghana having a long tradition of gold mining, its mining laws are more favourable to the multinational companies than the host country.

*“An Important characteristic of mining and mineral law in Ghana is the clear protection of the interest of multinational mining companies whilst the protection of community right and the environment is fluid”* Owusu-Koranteng (2005).

The benefits outlined by the PNDC Law 153 of 1986 (the mining investment law) to investors are generously enormous with the reason being the attraction of massive foreign direct investment to the sector. The law only requires the companies to only pay compensations to the indigenous people whose lands are being acquired for the mining. The mode of payment of the compensation is based on a commonly used formula of the headcount method of crops destroyed multiply by a historically fixed government rates for various crops in an inflationary economy. This means the actual land is virtually taken for free and this denies most farming communities farmland to feed on after taking such meagre compensation from the foreign companies. Apart from such compensations, the PNDC Law 153 pegged the government’s entitlement at 10 percent (previously 55 per cent) and other revenues generated from this sector are basically royalties and taxes which are also relaxed as a result of government intention to attract investors to the sector. In order to reduce governmental control to increase privatisation some strategic policies were put in place with the help of the World Bank through SAP.

*“During the early 1990s, World Bank monies were used to establish the Small-Scale Mining Project (SSMP), which delegated industry responsibilities to the Geological Survey Department, Minerals Commission, Precious Minerals and Marketing Corporation (PMMC), and Mines Department”* Hilson and Potter (2005)

This apparently is the reason why after a long history of massive exploitation of gold resource a significant number of Ghanaians still live with poverty. This scenario gives the impression that the petroleum resource may follow trend of gold production in Ghana. There has been skepticism across board as to how the petroleum resource will affect the Ghanaian economy

as the then vice president of Ghana indicated in August, 2011 that “the future of this country is not in gold, it’s not in oil; the future of this country is in agriculture,”<sup>5</sup>

## **4.7 Conclusion**

Ghana has been a politically stable country at least for the past two decades in spite of the difficult past. Natural resources exploitation is never new to Ghana as it has been mining minerals like gold, diamonds, bauxite and manganese. But these have not had any significant impact on the citizens and this apparently due to the time of discovery.

But with the petroleum discovery, unlike most of the states in the south which discovered their petroleum resources during colonization or just after independence. Ghana has taken the time to mature in terms of managing its socio-economic and political affairs. This discovery has come no better time than before but could have been best at a later time than this. Relatively Ghana has a society and institutions which are in a better position to bring to fore transparency and accountability in the new petroleum industry. The mostly strong parliament and judiciary, stronger media and a very active civil society give Ghana a high level of hope in making sure the petroleum resource becomes a benefit but not a deficit. Pressure groups like Alliance for Accountable Government (AFAG) and Committee for Joint Action (CJA) have been playing very useful roles in various capacities to entrench transparency and accountability in the Ghanaian political scene. However, corruption has been an albatross on the neck of the economic progress of Ghana which also threatens the very potential of this petroleum resource. It is feared that corruption and other factors like the lack of technological know-how may rob Ghanaians of the benefits of the oil and gas. It is in this respect that Ghanaians look up to the Norwegian oil management style to save themselves from the burst capable of emerging out of the boom.

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<sup>5</sup> (<http://business.myjoyonline.com/pages/news/201109/73501.php>. Agriculture holds Ghana’s future, not gold, not oil – Veep) Accessed 10/11/12.

## **Chapter Five**

### **The Norwegian Oil for Development in Ghana.**

#### **5.1 Norwegian Oil for Development in Ghana**

The Oil for Development (OfD) program is a Norwegian government means of providing assistance in petroleum revenue and environmental management to developing countries that have discovered petroleum resource. Examples of such countries are; Angola, Bolivia, Ghana, Mozambique, Nigeria, Sudan, Timor-Leste and Uganda as the core countries of the Norwegian Oil for Development. Afghanistan, Bangladesh, Cambodia, Ecuador, Iraq, Côte d'Ivoire, Kenya, Lebanon, Mauritius, Nicaragua, the Palestinian Territory, São Tomé and Príncipe, South Africa, Tanzania, Vietnam and Zambia serve as countries with limited cooperation.

Ghana now enjoys a core member status with the Oil for Development program with the focus on resource and environmental management (Norad, 2010). These co operations between Norway and the other states are being conducted through the Oil for Development (OfD) program under the supervision of the Norwegian Agency for Development Cooperation (NORAD) which also falls under the Ministry Foreign Affairs. This chapter aims to consider how effective the transfer of petro knowledge has been in the Ghanaian context. Thus the chapter questions to what extent the OfD program helps Ghana to appropriately respond to the resource curse threat? In doing this, I also compare and contrast relevant variables (like Population, volumes, laws, political systems, location etc) that have been identified in the earlier chapters as having effect on the success or otherwise of petroleum resource management.

#### **5.2 Oil for Development**

Oil for Development (OfD) was initiated in 2005 to assist countries endowed with petroleum resources to manage them in an economically, environmentally and socially responsible manner to also guarantee the needs of the future generation. That's to help manage petroleum resource to bring about positive change to the citizens by reducing poverty to cause improvement in the quality of lives of the populace. This assistance from Norway to the other countries is usually granted based upon request to the Norwegian government i.e. demand

driven. This OfD aid program is also meant to entrench the long standing history of the provision of assistance in petroleum related activities by the Norwegian government since the 1980s. Though good governance is not the only criterion for granting such request, it is cross cutting benchmark in all of the OfD activities. The principles of good governance entail transparency, anti-corruption and accountability (Norad, 2010). It is believed that through these, petroleum resources can be translated into welfare of the society. This is because many states struggle to translate petroleum resource into welfare of the people. Therefore the oil for development program serves as a Norwegian response to the resource curse.

The Ghana National Petroleum Cooperation (GNPC) in October, 2007 applied for assistance on behalf of the government from the Norwegian Oil for Development Program. This was not long after the discovery in June, 2007 in order to ensure that the petroleum resource becomes a blessing but not a curse. As the then president (John Agyekum Kuffour) of the republic of Ghana in 2007 stated when a delegation (oil industry experts from Norway) led by Mr. Tore Nedred (the ambassador to Ghana) called on him at the Osu castle, that the country was ready to co-operate with and to benefit from Norway's acclaimed expertise in the sector<sup>6</sup>. This cooperation between Ghana and Norway's OfD program was officially recognized after a memorandum of understanding (MoU) was sign in February, 2008 (Norad, 2010). The agreement was focused on assistance in resource and environmental management. The major cooperating institutions in Ghana are Ministry of Energy, Ministry of Environment, Science and Technology, Ghana National Petroleum Corporation (GNPC), Environmental Protection Agency and Town and country Planning (Norad, 2010).With this, Ghana is to receive assistance in petroleum policy and master plan formulation as well as technical assistance in the evaluation of the development of the oil (jubilee) fields. Again Norway has assisted Ghana in drafting the new petroleum (exploration and Production) Bill as well as the Petroleum Commission Bill. In this context attention is given to institutional strengthening premised on good governance. "A two year development program within petroleum management and technical training were initiated by Petrad comprising resource and environment, as well as other sectors and government institutions" (Norad, 2010 p:25)

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<sup>6</sup>Myjoyonline.com (Ghana ready to learn from Norway's experience in oil management, [www.business.myjoyonline.com/pages/news/200711/10174.php](http://www.business.myjoyonline.com/pages/news/200711/10174.php) accessed 05/12/12)

*It is an institutional cooperation and that is really a government to government institutions and when it comes to petroleum, we ( i.e. Norway) of course work with your( i.e. Ghana) ministry of energy, ministry of environment... and ministry of finance but the emphasis is on energy and environment ministries.....,*

*The institutions involved in the petroleum sector in Ghana, they are several but they are described in the new petroleum laws and that's being an important activity which we (i.e. Norway) have assisted you (i.e. Ghana) on is formulating the new laws. So that's how Norway's petroleum governance experience has transferred a bit to Ghana. That is through new law making. (Interview with Svein Heglund, OfD officer in charge of Angola, Ghana and West Africa. 29/02/2012)*

In 2010 the Ghanaian government received 15.6 million NOK (2,641,000 US Dollar equivalent), compared to 8.3 million NOK (1,405,190 US Dollar equivalent) 2009 in the form of aid through the Norwegian Oil for Development (OfD) aid program (Norad, 2010). This was meant to sponsor Norwegian personnel with petroleum expertise to Ghana to give advice and direction with respect to petroleum related activities. Again workshops and seminars are as well organized for officials from Ghana. Examples are; delegation from ministry of energy and GNPC visiting Norway during the offshore Northern Sea conference in Stavanger and again, personnel from GNPC participated in Petrad's eight –week training program on Petroleum Development and Operation and Petroleum Policy and Resource Management in Stavanger. This is how the Norwegian development aid program is organized for the Ghanaian institutions in order to give them the technical knowhow when formulating laws and policies relative to the petroleum sector. The OfD under Norwegian Agency for Development Cooperation (Norad) only coordinates the activities of the Norwegian institutions in Ghana. The Cooperation between Norway and Ghana does not involve transfer of money from the Norwegian government to the Ghanaian institutions.

*We (OfD under Norad) are only the coordinator. We have the money so we coordinate the activities. Most of the money is in fact used by Norwegian institutions to put aside people and time to assist Ghana. Example NPD has people working in Ghana and giving advice to your (Ghana) ministry. This is part of the overall agreement between Norway and Ghana. We OfD*

*coordinate and reimburse Norwegian institutions. So the cooperation here is we (OfD) are not sending money to Ghana. Ghana pays for their own institutions but we pay for our institutions to go down to Ghana and give advice in principle. So it is not so much money it's much more giving the Ghanaian institutions advice. Like a person in your ministry of energy can phone up a colleague in the Norwegian ministry and get advice. It is very direct, very qualified and very special type of advice. (Interview with Svein Heglund, OfD 29/02/2012).*

The Norwegian government in her attempt to assist developing countries who are rich in petroleum resources. But it doesn't want to impose decisions on the receiving countries due the peculiarity and dynamics of the environments in question, therefore it only advises. However, achieving poverty reduction through the use of petroleum resources is the primary objective of the Oil for Development Program. This is the Norwegian response to the resource curse and it is premised on governance and democracy building.

### **5.3 Is the OfD an Antidote to the Resource Curse threat in Ghana?**

The OfD program aims at achieving technical capacity-building maximize government revenues from oil and clarifying roles in the state apparatus to contribute to a balance of power between the state and the oil industry (Solli, 2011). It is hoped that when these are achieved in a producing state, oil can easily be translated into the welfare of the people. Several scholars (Ross, Collier, Humphrey et al, etc) - are of the view that stronger institutions and acceptance of democratic means of governance is the way to go when it comes to sound resource management. This apparently forms the basis of the Norwegian oil for development program to have used good governance as the key criterion for granting such kind of assistance to countries with the quest to making petroleum resource a blessing but not a curse. It is for a fact that clarity of roles of stronger institutions and democracy are able to significantly help reduce the severity of the "so called" threat of the natural resource becoming a curse. This is because democratic means of governance make the political elite accountable to the masses or reduces the dichotomy between the political elites and the society. This increases the demand for accountability by the citizenry from the political aristocrats. Therefore with this, the resources (thus rent from the natural resources) will be channeled through the proper means to address the needs of the people.

Again, when this is coupled with stronger institutions, there will be little room for unnecessary political interference in the functions of the institutions. Because institutional roles will be clearly defined and this gives them the capacity to execute identified tasks in bringing improvement to the lives of the ordinary people. As Humphrey et al, 2007(p. 23) explains the need for institutional strengthening before the commencement of any extractive activity concerning natural resources. It is believed that when such measures are put in place, it will have a trickle-down effect on the capacity building in the state apparatus focused on reducing poverty. This is how the Norwegian OfD program helps to bring to bear the relevance of the resources to the citizens of the producing states like.

In spite of Ghana being one of the strongest democracies in Africa, this doesn't necessarily mean it can automatically avoid the possible burst of the boom of the petroleum resource. It is true that good governance and stronger institutions can hugely contribute to the role of natural resources in poverty alleviation, but that is only one (domestic) side of the argument for the resource governance. The issue of good governance with the Norwegian Oil for development is vague, because it is a kind of normative or prescriptive means of political governance premised on western beliefs in a vacuum of scientific reasoning based on culture, history and other domestic factors in the settings of recipient states. In other words, state formation or nation building ought not to be an objective but subjective understanding of people in terms of cultural, history, economic, tradition etc experience.

Resource governance is a duality of domestic and international political interactions because producing countries lack the capacity to self-exploit which calls for profit-maximizing oriented foreign agencies; with the latter being a major source of worry and often lacks the attention it deserves. McNeish et al (2012, p.24) explains how exploitation of natural resources exposes the overlapping nature of formal and informal geopolitical sovereignties. When the former is unable to effectively counter the impact of the latter, the rent from such natural resources is usually distributed not in favour of the rightful owner. Clarke (2008) also argues that natural resources (especially oil and gas) have made Africa a competitive power between great powers, mid-range states, African polities and corporate oil-involving the interest of global, regional and local players. And this situation often robs off the resource-producing countries in this particular region the very benefits (rent) of such gift of nature. Adam Smith elaborates, the theory of rent as the price the landlord charges the tenant after taking into account expenditure together with the ordinary profit on the use of a piece of land (resource exploitation in this context). Whatever above the expenditure and average profit, is



the rent that must naturally go to the owner of the land (producing state). But more often than not, liberalism and ignorance on the part of the landlord usually make him accept anything less than the actual rent. That is, natural resource owners (i.e. states) are frequently ignorant about of their right to fully benefit from these gifts of nature by making sure inventors only benefit from the average rate of profit. The rent is what belongs to the people and must be controlled only by those people. This is what Norway made sure to do by securing the extra income beyond the average rate of profit, because it owns or control this particular resource (petroleum).

Norway was just like any other country in the south of the globe; with neither capital nor the technological know-how to exploit its petroleum resource in the initial stages of its oil and gas industry. However, as described above it also made sure to use foreign interest without losing control over its priorities (development). Stronger protectionist strategies by the then Norwegian government hugely accounts for their success in petroleum management. That is foreign companies were threatened to be punished in later concession round if they refuse to increase the shares of the Norwegian contractors (Ryggvik, 2010). Currently Norway has oil related companies (Statoil, Aker Solutions etc) seeking contracts, license and concessions around the globe. “Thus Norway now has an economy whose main actors have the same underlying interests as those companies which early Norwegian oil policy aimed to protect the country from” (Ryggvik, 2010). In this sense how does the OfD program assists petroleum producing states like Ghana to secure such rent which is highly contestable between the producing states and other external actors (corporate oil, great powers and other states alike)?

The general perception about the Norwegian model is that it can be imported into countries which also have oil in commercial quantities. Because the resources curse literature and OfD isolate Norway as one of the few success stories in petroleum resource management. And it does not layout a specific way to go when it comes to resource governance but for good governance. However, it accepts the fact that it is extremely difficult to replicate the Norwegian experience or model in any other environment in the current global politico-economic dispensation. Svein Hugland; OfD officer in charge of Ghana, acknowledges that the Norwegian petroleum experience is not always relevant due to dynamics and peculiarity of time and space. The condition in which Norway started off is quite distinct from how and where most developing African countries like Ghana is starting from. Therefore it is important not to lose sight of the differences in the environmental and developmental context Norway and Ghana found and find themselves respectively.

## **5.6 Contextualizing the Norwegian Experience in Ghana**

It is important to note that Ghana and Norway are two very distinct countries. These differences are historical, political, economic, cultural and many others. All these come together to give every state a unique experience in its body politics. As a result of this, caution needs to take central position whenever a success track of a particular country deserve to be replayed by another state. Norway as a country had a long tradition of industrial activities before the discovery of oil and gas and this played a very crucial role in making sure it regain dominance and control over it petroleum activities. Due to the Norwegian past industrial experience (In ship building) prior to the discovery it did not struggle much to convert some of its expertise to the sectors that were relevant to the then new petroleum industry. The Ghanaian industrial history is not as relevant even if there is one to quickly support the new petroleum industry. Therefore the time and effort Norwegian industries used to organize themselves to actively get involved in the petroleum activities can hardly be the same as what Ghana will need if it wants to have similar local industries.

Again, the structure of the global political and economic architecture in 1971 is different from 2012. Some policies that were legal then in terms of international trade are illegal now. The globalization and liberalization of international trade have given sovereign states (especially the developing ones) less autonomy in taking critical measures which various economic theories advocate in favour of industrialization and development. The introduction of free trade by the WTO and other international organizations among nations has further curtailed the industrialization progress of most developing countries by making them net exporters of raw materials. Economic histories of the developed world indicate the need for governments to protect local industries with tariffs and other measures in order to promote the growth of local industries. Most of such measures have become unacceptable in the current international trade system.

The Norwegian ambition to establish total national control did not come to stay without clashing with interest of the foreign oil companies. In such cases the countries of origin of the oil companies are usually in support of them for strategic reasons. This makes it extremely difficult for countries which are dependent on these super powers to go against their will and interest of the great power countries in order to do what is in the interest of the producing societies. A good example is; Ghana's attempt to review the contract between her and Kosmos Oil (An American Oil Company) and others was linked to the incident of visa

refusals of the Ghanaian government officials including the GNPC boss and the minister of energy for no reason by the US embassy in Accra<sup>7</sup>. This action of the Ghanaian government was believed not to have been in the interest of US government and consequently attracted their anger. These kinds of bilateral and multilateral agreements between states and other bodies and the flexing of diplomatic muscles are what usually deny the developing countries like Ghana the opportunity to fully benefit from their petroleum resources.

Is Ghana likely to go contrary to Norway's initial style of moderate pace of extraction? The desire to reduce poverty, increase infrastructure stocks, create employment opportunities etc by politicians is at its peak and these require huge capital investment. As it stands now, government of Ghana is heavily relying on foreign loans especially from China and other western countries as well the world bank and IMF (e.g. the famous 6 billion us dollar Chinese loan) to embark on most of these projects. Logically the windfall from the oil boom is obviously needed. This is why concerns have been raised if Ghana can adopt a moderate pace of extraction to allow it some time to acquire locally the technological know-how to embark on the exploitation on its own. The "resource curse" thesis indicates that resource boom often leads to extravagant or profligate (out of over exuberance) spending by government as a result of unnecessary optimism from those windfalls. This is what the theory of the behaviouralists suggests i.e. Natural resource –abundance often leads to irrational or emotional behaviour on the part of the political elites. Looking at the various campaign promises across the political divide in 2012, there is the strong indication that the revenue from the petroleum resource is a major source of hope for the politicians in Ghana. With this, is Ghana likely to resist the temptation of quick extraction in order to raise revenue to embark on the political ambitions of the Ghanaian politicians?

The resource curse thesis elaborates, booms from natural resources tends to create a dichotomy between the state and the society. Because the political elites do not require the will or support of the citizenry to run the affairs of the nation since incomes accrued from such windfalls substitutes or reduces their dependency on the tax regimes and this consequently reduces the demand for accountability by the populace. On the contrary is the Norwegian experience. Politics was already a social game in the body politics of the Norwegian people prior to the petroleum discovery. Political activism was extremely high just

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<sup>7</sup> ([www.modernghana.com](http://www.modernghana.com) <http://www.modernghana.com/news/275610/1600/us-shows-its-neocolonial-fist-in-ghana.html> Accessed 18/07/2012)

before and the genesis of the petroleum industry. This made most of the petroleum activities and policies public issues and transparent right from the start. Though Ghana is with a society which is relatively well awake with respect to politics but The Ghanaian situation is relatively not that positive when it comes to political activities since it is primary based on partisan instead of nationalistic lines.

However Ghana is a multiparty democratic state with several civil organizations (NGOs, Pressure groups, Associations etc) that are very active. Furthermore its media is one of the strongest in Africa. The freedom of the press is what gives hope by going the extent of exposing some of the corrupt and complicit activities of public officials. This serves as a serious check on both politicians and public officials. These coupled with the every four year term elections bring on board high level of demand for accountability. But as to what degree this demand can reduce corruption in the Ghanaian petroleum industry can hardly be determined for now. Because some activities which amount to corruption is almost accepted in the social norms of the Ghanaian political culture. Bribery in diversified forms has become very common to extent that it ceases to warrant attention anymore. Incidence and perception in corruption in Ghana is relatively high whilst Norway is still yet to discover a corrupt practice in its oil industry.

## **5.7 Conclusion**

The Oil for Development program is making necessary contributions to the Ghanaian petroleum industry in terms of capacity building, law making as well as advising the government on petroleum related issues. These in addition to Ghana's democratic credentials (the free press, free and fair elections, politically awake civil society etc) indicate a positive direction in favour of the Ghanaian petroleum management, because most resource curse literatures suggest that lack of democracy, transparency, accountability, stronger institutions etc are the causes of the poor economic performance. All these converge to explain how best the rent from the resources can be put into judicious use to benefit all and sundry.

But then and again, the issue is not only how to domestically manage the rent in a better way but also how states can secure the maximum rent is what the resource literatures refuse to elaborate. In my opinion, the oil for development program offers more of endogenous solutions but little of the exogenous ones. Though the extractive business is interplay of domestic and foreign interests but curtailing the domestic interest overrides that of the foreign in the solutions offered by the OfD program. That is less attention is given to how these rich

but underdeveloped and apparently weak states can counter balance of the profit maximizing interest of the foreign oil companies who always enjoy the unflinching support of their powerful countries of origin. This is where observers become skeptical of the Norwegian oil for development program (OfD) in Ghana. Looking at the Norwegian economy whose main actors are oil related companies seeking licenses around the world and this brings to bear is a conflict of interest between the national interest of the Norwegian government and the OfD program. This indicates that the OfD serves as a “Trojan horse” for the profit oriented Norwegian oil companies to get the chance to operate in the recipient states. However it is in the prerogative of the recipient state like Ghana to cautiously pick the important lessons that can be drawn from the experience of Norway. In this respect, the Norwegian petroleum experience offers a lot of lessons per the findings and analysis of this research.

## **Chapter Six**

### **Findings and Discussion**

#### **6.0 Findings and Discussion**

On the basis of the qualitative criteria highlighted in preceding chapter, this chapter seeks to consider the value and impact of the Norwegian Oil for Development Program, and Norwegian oil experience in general, in relation to the current efforts to develop an oil industry in Ghana. Qualitative method is usually premised on subject matter of social sciences (that is people and their social world) but not subject matter of the natural sciences that can be interpreted in an objective manner (Bryman, 2008). Thus qualitative unlike quantitative research is usually not free from the subjective interpretation of the people under study and the researcher. To reduce the effect of the subjectivity of the interpretation in order to facilitate understanding, the findings will be presented in a descriptive manner for it to speak for itself.

After the presentation of each finding, the other phase will subject the finding to an analytical interpretation whilst comparing the literature with the findings to identify key factors and relationships. This will further expand and extend the data beyond the descriptive phase and contribute to the meanings of the findings to the topic of this study.

The final phase will be dedicated to evaluation of the findings by looking at Ghana through the lens of Norwegian hydrocarbons management style to identify points of convergence and divergence with the means of comparative study. This is to facilitate understanding of similarities and differences or get a deeper understanding of the Norwegian petroleum experience in the Ghanaian context. In doing this, how institutions, the political history and environment, traditions and customs of Norway have contributed to the development of its oil industry and how these can be helpful to Ghanaian hydrocarbon industry is considered. This is done through purposive sampling where relevant respondents to the research questions and goals are sampled. Moreover, a variety of respondents were sampled from the Oil for Development Program, Norwegian Petroleum Directorate, Norwegian Petroleum Museum and Technology, Innovation and Culture of University of Oslo and analysis of secondary data like articles, journals, books etc are utilized in the analysis and arguments due to their relevance to the research questions posed.

As chapter two explains in detail, countries endowed with natural resource can hardly be disassociated from poverty, diseases, corruption, political instabilities, dictatorships, poor infrastructure etc. Examples are; Sierra Leone's Blood Diamond, Angolan oil and diamond; civil war and corruption, Nigeria a major oil exporter; high rate of poverty and corruption, Sudan's oil and conflict, DR Congo's minerals; corruption and civil war etc. These are the reasons for Ghana's motivation to co-operate with and to benefit from Norway's acclaimed expertise in the hydrocarbons industry. In this sense I critically compare and contrast these two countries to find out how Ghana can benefit from the Norwegian oil experience to avoid pitfalls.

### **6.1 Differences and Similarities between Ghana and Norway in the framework of Petro- Governance**

The current phenomenon of global trade liberalization tied with treaties, convention, ratifications and agreements necessitates the need to dwell on historical and present events in a contextual framework with respect to policy direction. This is why the differences and similarities between Ghana and Norway with reference to factors that have influence on petroleum resources and development must be brought to bear. The table below compares Norway in 1971 and Ghana 2012.

**Figure 4**

	<b>Norway (1971)</b>	<b>Ghana (2012)</b>
<b>Political System</b>	Parliamentary/ Monarchical	Presidential
<b>System of Government</b>	Social/Welfare ( Democracy)	Mixed (Democracy)
<b>Political Concept</b>	Unitary/Centralized (Not Federal)	Unitary/Centralized (Not Federal)
<b>Tempo of Extraction</b>	Moderate	Desired
<b>Dependency Rate</b>	Moderate	High hopes
<b>Discovery Location</b>	Offshore	Offshore
<b>Mode of Licensing</b>	Several Licenses	Several Licenses
<b>National Control</b>	1 <sup>st</sup> Priority	Desired
<b>Protectionism</b>	Very High	Desired
<b>Population</b>	3,877,000	24,223,431
<b>Volumes of production (P/d)</b>	40,000 b/pd (Ekofisk 1974)	63,000 b/pd (Jubilee Field)
<b>Ethnicity</b>	Heterogeneous	Heterogeneous
<b>Technology</b>	Desired (Imported)	Desired ( Importing)

**Figure 7 Differences and Similarities between Ghana and Norway.**

The poor economic performance of most of the petroleum producing states is induced by multiplicity of factors, the most central of which are mentioned in the table above. These variables are mentioned in reference to how they can contribute to the poor economic performance in one way or the other. As already elaborated in chapter two, such variables mentioned in the table above are analyzed and examined by comparing and contrasting Ghana



and Norway to find out how such variables have had no negative influence on Norway to serve as lessons to Ghana.

***Ethnicity:*** Observers agree that conflicts easily originate mostly, whenever a group of people with a common identity out of a heterogeneous society feel neglected in the distribution of the wealth from natural resources of a state. However this is contingent upon the lines of division or negligence among the economic classes of the state. Thus when a particular group of people of the nation find themselves only in the lower economic class and feel neglected in the distribution of the resource wealth of the state, they are easily motivated by creed (identity) to fight for their portion of the bounty of nature. But on the contrary when the society is homogeneous, it is unlikely for such a conflict to occur.

In this respect both Ghana and Norway are heterogeneous in their ethnic composition. So what lessons are there for Ghana to learn from Norway in these directions? Norway was not without ethnic (communal) tensions as to who ought to fully benefit from the oil production in the early stages of production. These tensions were manifested when it came to the struggle for the oil capital city of Norway. “Stavanger’s the place” was the slogan of the city council during the debate for the location of Statoil and Norwegian Petroleum Directorate offices. The efforts of Mayor Arne Rettedal coupled with Kjølsv Egeland (Head of Rogaland Regional College in Stavanger) and the city treasurer, Konrad B Knudsen were driving forces for the parliamentary decision to establish Statoil and NPD in Stavanger on 14<sup>th</sup> June, 1972 (Norwegian Petroleum Museum, 2000).

In spite of the tension among communities (ethnic) for the oil capital, these struggles were calmly settled by the parliament due to generally accepted democratic rule the people of Norway had chosen to go by. Similar kinds of tensions occasionally occur though not about the location of the oil capital but rather how revenue from the oil produce is distributed with emphasis on the coastal community along which the oil is produced in Ghana. The people of the western region of Ghana believe they deserve to get a special share (10%) of the revenue from the oil boom due to the fact that the oil is found in that region. Since Ghana is relatively new in petroleum production with strong democratic credentials (stronger parliament) it is possible to prevent such tension to degenerate into conflict, as parliament (representation of the people) of Ghana can deliberate to find what is in the national interest.

***Political system:*** The political system (presidential or parliamentary) of a state can play a role in the success or otherwise of the resource management of the state. A purely presidential

system of government without a strong parliament to serve as check on the executive arm of government is more likely to fail in its resource governance. Parliament is the key institution that checks on the activities of the executives. The absence of stronger parliament in a presidential system of government gives the executive the free hand to operate with little or no demand for accountability which usually leads to corruption. And this is likely to create a gap between the state apparatus and the society due to the windfall from the oil production.

Norway and Ghana slightly differ in this sense. Norway and Ghana basically practice parliamentary and presidential system of governance respectively. With parliamentary system of government all major decisions are made by the representation of the populace which renders transparency higher than in the presidential system. This apparently is one of the reasons why transparency was high in the Norwegian oil governance right from the start. All major political decisions are taken by the executive (cabinet which is headed by the president) subject to the approval of parliament in the presidential system of Ghana. Due to this the people of Ghana are hope of transparency and high demand for accountability because of the independent nature of the parliament of Ghana. The parliament of Ghana is relatively stronger with respect to demand for accountability and transparency since the inception of democratic rule in 1992. Because of the strong nature of the parliament of Ghana, the difference between the two countries is insignificant in the sense of accountability and transparency. However it is a routine in Ghana that partisan interest mostly overrides national interest, as it is normally expressed in the Ghanaian political debates that “the minority will have their say and majority will have their way”. Also it is highly uncommon for an MP to oppose or criticize a stance taken by his/her party in a parliamentary debate. With this, it is possibly easier for the strong multinational oil companies to manipulate the situation to their advantage. The sales of Ghana Telecom to Vodafone UK is a typical example when an MP (Mr. P.C. Appiah-Ofori) from the then majority side of parliament alleged that his colleagues were bribed with 5000 US dollars each for the parliamentary approval of the sales of which most Ghanaians were against.<sup>8</sup>

***Political Concepts:*** Again, federalism as concept of governance together with over dependence on natural resource by the state poses a major challenge when it comes to resource (oil and gas) governance especially in the developing world. When revenue generated from these resources serve as the main stay of the federal government of a country, it creates a sense of competition for the revenue from the resource between the state/region

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<sup>8</sup> (<http://www.modernghana.com/news/366775/1/african-democracies-are-indeed-tragic-corruption-x.html>)

and the federal government/republic in the body politics of that nation. And this usually serves as breeding grounds for grievance of the local communities which ends up degenerating into all sorts of conflicts. A look at Norway and Ghana in terms of federalism presents a condition immune from the challenges from this concept of governance.

***Location of discovery:*** Furthermore, the proximity (location) of the resource also plays a crucial role in either contributing to resource curse (conflict) or otherwise. When the location of the resource in question makes it easier for it to be accessed, there can be higher incentive for few powerful individuals to organize people and try to take advantage of the location and capture their portion of the booty to either enrich themselves or finance their conflict agenda. Since Ghana also has deep sea drilling just as Norway, it is less probable for such an incident to happen. This is because accessing the resource in these locations requires high level of technological knowhow and huge investment cost, so it did not take Norway any special efforts to prevent people with interest to get easy access even if there were any.

***Dependency Rate:*** Due to the volatility of the world market prices of natural resources, countries that rely heavily on the incomes from the sales of natural resources risk the chance of getting a reliable and consistent source of income. And this is likely to lead to poor economic performance when there is an unexpected drop in prices.

As a result of this, Norway was mindful of how large the new oil industry would become in order not to crowd out the other sector of the sectors of the economy (Kristiansen Øystein of NPD). This is why they resorted to moderate rate of extraction for at least the first two decades. This was meant to restrict the oil industry from over expanding to strangle the other sectors like the manufacturing, agriculture and the fishing industry. The moderate pace of extraction allowed Norway to put measures in place to reduce or prevent the factor movement, spending effect and spill-over effects, which cause the Dutch disease as already explained above in chapter three. Because of this other industries like fishing and manufacturing and agriculture were safeguarded to provide jobs and income before the oil industry will also grow and complement the other sector to the economic development of the state.

Ghana in this respect has an economy which is diversified (financial & insurance, commerce, agriculture etc) to stand the temptation of relying heavily only on the petroleum resource. But the issue is how to make sure the petroleum sector does not come to suffocate sectors like the cocoa industry which is a very important sector in Ghana. Since the petroleum industry is still

young, there is yet to be known economic measures that have been put in place to protect the already existing sectors.

***Rate of Extraction:*** More often than not, endowed states initially lack the technical know-how to start exploitation on their own. Again the majority of the population at the time of discovery usually have little or no idea of exploitation business of the resource in question, so if time is not taken (i.e. slow pace of extraction) for the public to get grips of what is happening, only a few will take advantage of the situation because of little demand for accountability. If time is not taken for the state to adapt to the demands of the resources (especially if it is nonrenewable), it would be exhausted before the state gets the competent generation to handle the demands of those resources in making sure the state actually benefits from it.

Also, quick extraction pace is likely to generate too much income in the system which is capable of overheating the respective economy to a level it cannot tolerate. This subsequently leads to appreciation of real exchange and consequently Dutch disease. Apparently, these are the reasons why Norway opted for moderate rate of extraction for the first two decades which helped them to acquire the technological knowhow before increasing their pace of extraction.

For now, it is a desire for Ghanaians to toe the line of moderate rate of extraction since this industry is quite a young one (first oil drilled in 2009). This makes it difficult to determine how (moderate or quick rate) Ghana wants to go in terms of extraction rate and there has been no law stating the direction in the sense. However the ordinary Ghanaians are highly enthusiastic about the discovery but very skeptical due the experience with gold which has never affected most of the ordinary lives in Ghana.

***Interest groups:*** The customs and traditions of a community have a role in making the resource a curse or otherwise. The traditions and culture of the Ghanaian people give the traditional and community leaders some level of leverage over the land and the resources within their jurisdiction. This however does not give them an automatic constitutional right of ownership over those resources. This is likely to give a sense false ownership to the traditional and opinion (the major stakeholders) leaders in the communities where these resources are found. Consequently people from such communities can be motivated to make claims that have potential to conflict with the national interest. This apparently induced the traditional leaders of Western Region (where the oil and gas is found in Ghana) to make a

demand of 10% share of the total revenue from the oil and gas proceeds.<sup>9</sup> Again since Ghana's petroleum production is offshore which is most likely to affect the livelihood of the fishing communities along the coast.

Norway had a very influential and well organized fishing industry with a stronger bargaining power as compared to Ghana to protect the interest of its members at the time of the discovery in the North Sea. Caution needs to be taken here especially the concerns of the local fisher folks, since such concerns can lead to grievances and tensions in the production environment or community.

## **6.2 The state, democracy, development and the petro- experience of Norway and the way forward for Ghana.**

Similarly to Ghana, the Norwegian state had gained political independence just a little over half a century when the discovery was made in the North Sea. Its political process was severely interrupted by the German invasion during the WWII which can be likened to the multiple coup d'états in Ghana after independence. Norway restarted in the mid 1940s with a social democratic system of rule. By that time Norway was recognized as an impoverished country which was the highest beneficiary of the Marshal Aid program in terms of per capita just as Ghana is an aid recipient state. It was just a little over two decades of the Norwegian reconstruction policy when the discovery was made. Again Ghana was also a little over two decades of interrupted democratic rule when the discovery was made offshore of cape three points in the Gulf of Guinea. In contrast to Ghana, Norway had about 150 years of industrial (particularly in ship building) experience before the oil discovery. And this was relevant to the new oil industry.

The Norwegian State has made a significant contribution to the development of its petroleum industry in a strategic manner. One of the key important decisions was the establishment of a state owned oil company (Statoil) to help protect the Norwegian interest and exercise a strong national control. This was done by pairing the newly created oil company (statoil) with the foreign oil companies which had the technological knowhow. With this the foreign companies were obliged to transfer knowledge or train Statoil to acquire the technological know-how to be fully independent within the span of ten years based on the concession agreements. This apparently was easy due to the waterfall Act. This Act together with the government strategic

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<sup>9</sup>(Western Chiefs go wild, <http://www.modernghana.com/newstthread/304789/1/133460> accessed 08/11/2012).

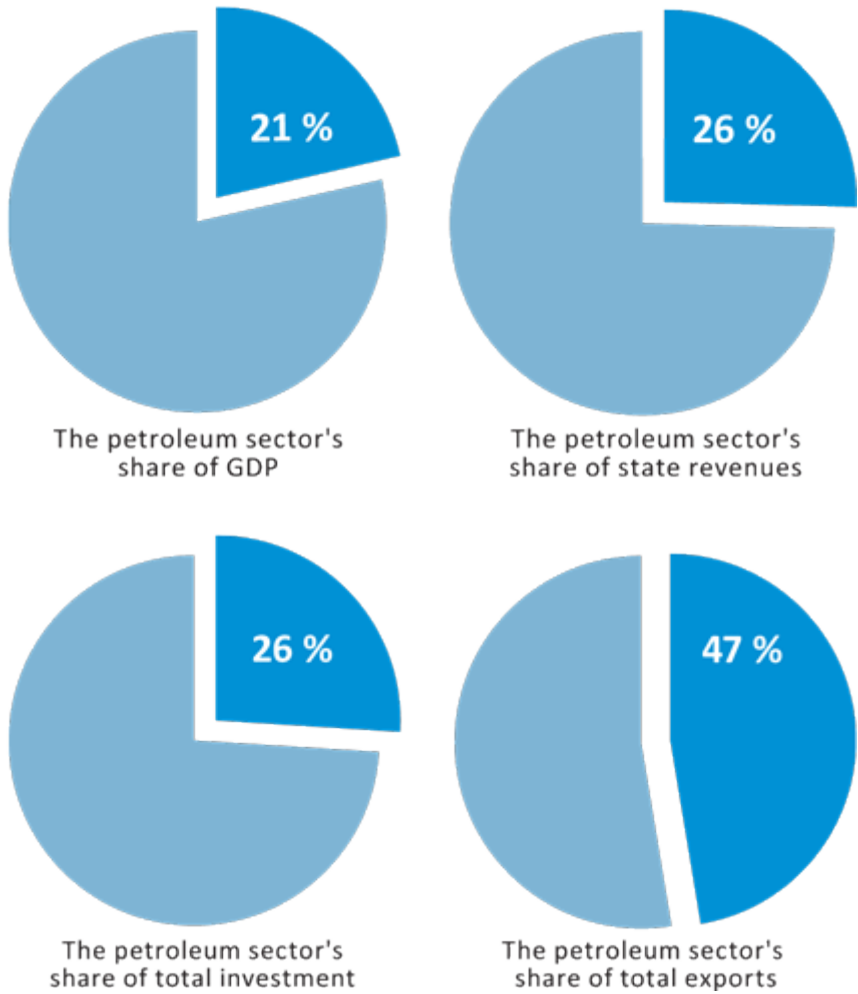
protectionism measures secured the Norwegian suppliers 45.9% all contracts awarded by Norwegian domestic oil companies between 1979 and 1993 McNeish & Logan et al (2012). This strategy succeeded in helping to fulfill the dream of high local content or participation.

There was the belief that the energy and the value of the Norwegian waterfalls was a free gift of nature and therefore it shouldn't go to any individual instead the public or the state. This was the premise on which the waterfalls Act was based and determined that the state and hence the public owned it and all the benefits attached to it. Since Norway then did not have the technology to exploit it by itself it had to rely on foreign companies. But that i.e. giving out of concession was carefully done at the back drop of the fact that the land will be returned to the state after a specific period of time without compensation (i.e. Escheat).

Another point of convergence between Ghana and Norway is the practice of democracy. The social democratic values of Norway have played much greater developmental role in shaping the oil industry and the country at large. Due to democracy, political activism was high which made the demand for civil rights, accountability, transparency etc easier. Examples are the several strikes actions by the Labor Organizations and civil societies. Also the decision to incorporate the labour union in the democratic regime right from the time of reconstruction has played a significant role in compliment of the efforts to demand accountability and the protection of labour rights. Though the Trade Union Congress (TUC) and the Labour Commission of Ghana are not as powerful as their counterparts in the political spheres of Norway yet, they have great influence when it comes to demand for labour rights.

It is for a fact that the petroleum sector constitutes the largest industry of Norway. But one important finding is that, from a distance it is likely to believe that the Norwegian economy is solely dependent on its petroleum sector. But a critical look at the structure of the Norwegian economy exhibits how the contribution from the petroleum sector to the development of the nation has a little bit been over emphasized. What I strangely find unnoticed by many scholars is the tax system of Norway which is relatively high and very effective. Taxes remain high as a proportion of GDP in Norway as compared to other countries McNeish & Logan et al (2012 pp. 228). It seems to me that, the role of taxation in the welfare system of Norway is usually overshadowed by the petroleum sector. Norway unlike some of the other countries has the petroleum sector contributing only 21 percentage share of the GDP. This means other sectors of the Norwegian economy also make significant contributions. The diagrams below further elaborate it with more other sectors.

**Macroeconomic indicators for the petroleum sector 2010**



Source: Facts 2012. The Norwegian Petroleum Sector

**Figure 8 The structure of Norway's economy**

The diagrams above show the kind contributions the petroleum sector makes to the various sectors of the Norwegian economy. Though the petroleum sector forms 47 percent of the total export of Norway, it contributes 26 percent each of total state revenue and investment. These show that the other sectors of the economy still perform in spite of the huge revenues accrued

from the petroleum boom. That is the petroleum resource did not come to strangle the other sector of the economy (manufacturing and agric sectors).

In contrast the tax system in Ghana is a very good but not efficient enough to reach its potential, especially with respect to the informal sector. Apart from the formal sector which is well structured to make tax evasion extremely difficult, the informal sector which is also large is with conditions that make taxation a bit difficult. These difficulties lay in the predominance of cash transaction, lack of voluntary compliance, low standard of record keeping, high illiteracy rate, ignorance about the tax laws and among others (Ofori, 2009). Ghana can work on this sector to improve upon its revenue to reduce the possible over reliance of the economy on the petroleum sector.

Again there are other several factors that have significantly contributed to the Norwegian achievement in making sure petroleum resources positively contribute to national development. Firstly, Norway made most of the activities related to oil happened on Norwegian soil or seas. This was meant to realize the goal of local content. Norway realized the need to make activities related to the petroleum industry occur in the Norwegian territories because that was how jobs would be created to have a multiplier effect on the economy as a whole.

The petroleum industry offers jobs in diversified ways ranging from catering and cleaning services to engineering tasks. This is how the oil and gas industry of Norway helped in job creation and consequently increased the taxable population of the Norwegian economy. Nonetheless looking at the location of the Ekofisk field, it apparently would have been in the economic interest of the oil companies to carry out some activities (like rig building, refining etc) in the nearby countries (e.g. Britain) which already had the facilities and the expertise relative to the oil industry. As Philips argued that it was economically prudent to lay pipes directly to Europe and Britain than to send it to Norway with huge difficulty and later transport it back to the European market. This was because the distance from the Ekofisk (in the middle of the North Sea) oil field from UK is almost the same as from the same field to the Norwegian land.

Taking into account the events that occurred before the building of the state pipelines; being the declaration of the Norwegian Trench as almost practically impossible to build pipelines across (from Ekofisk) to the shores of Norway by the profit oriented oil companies. This indicates that, Norway was nearly denied the opportunity like jobs that come with petroleum



related activities on its shores, the maximum economic rent they are enjoying for owning the pipelines etc. If Norway had not resisted this decision of the foreign oil companies, it would have been losing the economic rent it is enjoying now. Since these profit oriented foreign oil companies are only interested in maximizing profit, they usually do not have time in investing in infrastructure and technology they can easily find an alternative elsewhere. For example, most of the rigs used at the initial stages of exploitation were imported from outside of Norway (particularly the USA). But since the Norwegian shipping industry was able to quickly adapt itself to the needs of the then new industry, the situation was quickly reversed by building rigs, tankers, vessels etc locally.

Seeing Ghana through the Norwegian lens in this sense sends the signal that if Ghana is not cautious and quick to try and abreast itself to meet the technological requirements of the new oil industry, most of the required technologies and expertise are likely to be imported from the Americas especially Brazil. The location of Ghana's oil find in the Atlantic Ocean (offshore) and the lacks of historical industrial tradition which can easily be transformed to benefit the oil industry as Norway did. When this is coupled with the location and the pace of technological advancement in Brazil (which is also along the same Atlantic Ocean) and is also involved in petroleum exploitation, it will be easier and apparently less expensive for the oil companies to take advantage of the Brazilian situation by hiring experienced workers and other facilities from there. Definitely Brazil now has bigger refineries and trained personnel in this sector than Ghana, so there is the higher incentive for the oil companies to utilize most of these facilities and services at the expense of the Ghanaian state. Thus technologies and personnel can easily be transported across the Atlantic Ocean from Brazil to Ghana. This is what Norway made sure to prevent. It made most of the oil related activities happened in Norway. In this case if Norway did not challenge Philips and later Elf and Mobil with a comparable counter-power, it wouldn't have built the pipes to transport the oil and gas to make most of the activities happen on the shores of Norway.

Another condition that assisted Norway was its experience in giving out concession with respect to hydro power. Norway passed a very radical concession laws just after independent from Sweden. This was about how their cheap water power was to be exploited. With this Norway had a long tradition of how to relate to foreign companies who wanted to exploit their natural resources before the great discovery in the North Sea. This was at that time seen as an abuse of right of those who owned lands and woods along the banks of the rivers (Ryggvik, 2010 pp.15). And that was how radical the laws were. So prior to the arrival of the foreign oil

companies in the 1960s this was the *modus operandi* of the concession regime in Norway. Again these helped the state to acquire the necessary technological skills to exploit its own water resource. Therefore with these laws in place it was in order to conform to the already existing legal approach to allocation of rights to foreign companies who came to exploit the potential oil and gas fields in Norway. This is what gave the Norwegian government the impetus with ease to decree in 1963 that “The ocean floor and underground of the underwater areas off the coast of kingdom of Norway are under Norwegian sovereignty as regards the exploitation and research of natural deposits...” This was without difficulty because there were no private ownerships prior to that.

All other conditions wouldn't have been enough to have contributed to the Norwegian success in petroleum management without the political support the local industries enjoyed from the government. In order to achieve the goal of high local (Norwegian) participation, both direct and indirect protectionist strategies were employed. The Norwegian government used the tool of reprisal against the foreign companies in making sure that the shares of the Norwegian contractors were increased. The foreign companies who did not want to contribute to achieving this aim were warned to be affected in a later concession round. Again, there were requests that Norwegian workers should be used where possible together with the requirements that oil fields' operational organizations had to be based in Norway and that all documents and contracts must be made in Norwegian as well as the working language on the platform was to be Norwegian for safety reasons (Ryggvik, 2010). Moreover, the government also took the initiative of training oil related expertise and creation of state research institutions to support Norwegian companies. These are some of advantages Norwegian companies had over their foreign counterparts. Also, Statoil's dominant role as a majority share holder (50%) in most of the oil fields significantly assisted the authorities' demand and regulations to localize the petroleum industry of Norway. Statoil's position was used as a negotiation power to press home the demands of the government. For example, Mobil was pressed upon to give out the engineering task on Statfjord B field to a newly started Norwegian engineering firm (Norwegian Petroleum Consultants) as a result of Statoil's share. Furthermore, the harsh Norwegian winter weather coupled with high sea waves and deep water find necessitated the need for Norwegian expertise in the maritime service like sailors, divers and engineers. All these have helped shaped the Norwegian oil experience.

Some of the protectionary measures employed by Norway at the time of discovery will be difficult to be replicated by Ghana in the current era due to conditions put forth by WTO,

World Bank, IMF etc. Nonetheless, there is nothing wrong with an oil-producing state to do what it can to secure the greatest possible share of oil rent Ryggvik (2010). Therefore what Ghana ought to do now is not be in a haste to give out too much at the initial concession rounds. Also policies to put Ghana in a stronger negotiation position must be embarked upon in order to secure greatest possible rent.

### **6.3 Conclusion**

As oil producing states there are several differences and similarities which bring to bear the essence of comparison between these two countries. Clarification of the differences between Ghana and Norway has helped contextualize the benefits of the Norwegian oil experience in Ghana in a systematic manner. It has been realized that oil and gas resource management requires strategies not only to counter the domestic interests which are contrary to the state's but also the foreign interests (especially that of the profit maximizing foreign oil companies) in order to secure the maximum possible share of oil rent.

In my opinion, democracy is necessary but not sufficient condition to bring to bear the maximum benefits from natural resources to the people. Democracy helps in the management of natural resource in a transparent and accountable manner but when a resource rich country is democratic and does not make sure to secure full control over the possible maximum share of economic rent it supposed to get at the expense of the foreign oil compnies, then the democracy will not make the significant impact it needs to make. Thus it should not be a democracy which only expresses itself through parliamentary representation but also through direct popular mobilization to demand accountability and transparency (Ryggvik 2010, p113). To compliment this, factors like political concept, political system are considered in paring the two states.

Exploitation of natural resource especially oil and gas involves competition between the state and several other interests (of both domestic and foreign) groups. Both domestic and foreign agents' actions in the extractive economies are directed at rent seeking activities. Therefore states ought to secure their national interest against the external forces whilst considering internal matters like transparency, accountability, democracy, strong institutions, good governance etc. Because even if a state has strong institutions with democratic governance and losses control over its resources to its domestic and especially foreign competitor due to ignorance or any other reason (e.g. bad contracts) it will definitely render such institutions and qualities meaningless because the owners of the resources would not fully benefit from them.

## Chapter Seven

### 7.0 Conclusions and Proposals

This thesis is meant to look at the new oil industry of Ghana through the lens of the Norwegian petroleum experience to examine how beneficial that can be for Ghana. That is to find out the role of the state in shaping up the economy with the help of oil and gas. The key findings of this research are highlighted to serve as lessons for Ghana.

Firstly, it must be recognized that the Norwegian petroleum experience is not a product of a single decision or action but rather a collection of factors come together to give a better explanation. More often than not, transparency, accountability, democracy and institutionalism are mentioned as the secret of the Norwegian petroleum success. Although these have played important roles in the development of the Norwegian oil industry in positive manner, there are still other key factors without which things could have been different.

Norway wouldn't have been luckier without the radical concession law (the waterfall act) already in place before the discovery of the oil in 1969. It already had a way to deal with foreign companies who exploited their natural resources especially the hydro resource. These laws were bent on to protect the Norwegian interest. Therefore Norway couldn't have done anything better than to conform to such laws to secure the possible greatest share of the rent. Subsequent concession laws were premised on that. This significantly gave Norway a strong negotiation power and control from the start of the development of its petroleum industry. This accounted for the significant reduction of foreign dominance just after few years of production since the concession laws accepted principle of escheat.

Also, about 150 years of industrial tradition particularly the shipping industry contributed a lot in developing the local technological know-how. It was easier to transform these shipping companies which were then struggling to an oil related companies. Some of the current giant petroleum related companies used to be ship companies. A key example is Aker Solutions. This was the reason Norway didn't take long time to take a full technological control over the oil industry. With this local participation was increased without much difficulty since some of the expertises in the shipping yards were of use to the new oil industry.

The strength of the labour movements in Norway can never be underestimated. This research has shown that the labour movements (unions) remain as major actors in the petro-politics of

Norway. The level of labour militancy in Norway at the time of the oil discovery gave politicians and the oil companies no option than to transparent and accountable. While democracy and institutionalism are there to bring to fore such qualities, politicians and the technocrats will on be good as you demand of them. This discovery couldn't have come at any other favourable time for Norway than the time the society was more determined to secure its power against that of the foreign oil companies. Thus active popular mobilization came to strengthen the social democratic values in entrenching transparency and accountability.

Finally, these factors are what have complimented the efforts democracy and institutionalism to have made the Norwegian petroleum experience an important one. It is very important for Ghana to recognize these factors as not the entire story is being told about the oil industry of Norway especially by the oil for development program.

## **7.1 Proposals**

This section offers various lessons that Ghana as a new petroleum state should learn to avoid the boom and bust of its petroleum resources. Ghana is never an exception to the countries blessed (or cursed?) with natural resource abundance. Therefore good and practical examples of Norway that fit into the Ghanaian context can serve as guiding principles in the management of the petroleum resources of Ghana in a better manner.

- **Moderate pace of extraction.**

Ghana ought to be patient to develop home grown solutions to the demands of the new petroleum industry. It must not be in a haste to extract before it gets a society which understands the petroleum activities in terms of technology and administration since the extractive activities usually come with problems like pollution, corruption, etc. It should take time to train local expertise in order to help indigenous industries to upgrade themselves to the level in which local participation can be increased. this is how jobs can be created by the oil industry to its fullest potential.

- **Flexible Regulations**

Regulations (Laws and contracts) should be improved by the state as it takes time to develop the new petroleum industry. The government must ensure that the legal

framework it operates with is sufficiently flexible for it to readjust itself anytime it deems it necessary.

- **Establish a state owned Oil Company.**

Apart from such practice being the normal trend in the fraternity of the oil producing states, it is also normal and important for an oil producing nation to have higher governmental control to localize the oil activities as much as possible. And it is in the establishment of a state owned oil company that can create a space to develop a convenient oil policy to protect the Ghanaian interest against the other competitive forces. This is how Ghana can gain profit beside the economic rent. Also State-owned Oil Company becomes the option for the producing state if the foreign oil companies try to hold back or withdraw for any reason(s). This strengthens the negotiating power of the government or the state. However, in spite of government's interest such company should be allowed to operate with high level of independence and little governmental interference.

- **Secure possible maximum economic rent**

In order to make sure Ghanaians enjoy the maximum economic rent from their petroleum resources, the multinational oil companies should be seriously monitored not to enjoy profits which are above the average profit rate. A better and effective tax system is the medium in which the state generates income from the use of its asset. The tax regime should make sure Ghana gains the maximum benefit and leave only average rate of profit to the oil companies. The problem of cost inflation and profit deflation in an attempt to reduce the taxable income must be brought to a minimal level.

- **Strict Environmental laws**

Petroleum is a pollutant resource therefore issues of environmental concerns should take a centre stage in the activities of the petroleum industry of Ghana. Authorities in charge of the environmental laws in Ghana should make sure to oil companies strictly obliged to the measures put in place to check possible pollution.

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