



Ministry of Finance

Assessment of Angolan Oil
Sector - Final Report
VOLUME 4c - Review of the
Regulatory roles of State owned
Oil Companies in Norway and
Indonesia

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This report contains 8 pages

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1 Introduction

On 22 November 2000, the Government of Angola concluded a contract with a consortium led by KPMG for the Financial Monitoring of the State Petroleum Revenues. The study is designed to assist the Government of Angola to increase the transparency of the flows of revenues from petroleum production, and to build managerial capacity for the monitoring and forecasting of future revenues.

This is the Final Report of the Oil Diagnostic Study. The objective of the 'Financial Diagnosis and Monitoring of State Petroleum Revenues' was to conduct a diagnostic study of the upstream petroleum sector as it affects the public finances of the country.

1.1 Constituent parts of the Final Report

This Final Report comprises 5 volumes.

- Volume 1 comprises a guide to facilitate cross-checking of the outputs with the TORs and the Executive Summary;
- Volume 2 comprises the main report with recommendations;
- Volume 3 comprises the supporting appendices;
- Volume 4 comprises the supporting manuals for the financial model and procurement, and a review of the regulatory role of State owned Oil Companies in certain countries; and
- Volume 5 comprises the detailed fieldwork and analysis for the project. This is also encapsulated in the extended inception report in more detail.

1.2 Structure of Volume 4

This report, as part of Volume 4, comprises a brief review of two state oil companies. The review was specifically requested by the Deputy Prime Minister¹.

- Section 1 contains information about the background and the final report;
- Section 2 comprises a review of the Norwegian petroleum regulatory arrangements; and
- Section 3 addresses a review of the Indonesian petroleum regulatory arrangements.

¹ Discussed at a meeting with the Consultants held on 13 February 2003.

2 Review - Norway

In Norway a review of the nation's future petroleum administration was established in 1970. This review concluded that three functions were of paramount importance:

- A Centralized function: This function controls official government policy and was seen as a task that fell naturally to a government ministry.
- An Administrative and Regulatory Function: This function concerned the regulation and administration of the oil and gas industry.
- An E&P Business Function: This function concerned the Norwegian states interest in participating in production licences on the Norwegian Continental Shelf.

As a result of this review and in 1972 the following organisations were established with responsibility for the three key areas:

- The Ministry of Industry was designated the role of the centralized control function and was strengthened by the establishment of a separate division for Petroleum and Mining.
- The Norwegian Petroleum Directorate (NPD) was established to take control of the administrative and regulatory function.
- A Norwegian state oil company named Statoil was formed to participate in production licences with foreign oil companies

The Regulatory authority (the NPD) and the E&P business function (Statoil) were to remain two entirely separate entities with no overlap in duties or responsibilities. This had the immediate effect of ensuring that there was no conflict of interest in the Norwegian oil and gas industry between State owned and run organisations.

In 1978 matters concerning petroleum and energy were moved from the Ministry of Industry to a newly formed Ministry of Petroleum and Energy. In 1979 the constitutional responsibility for matters concerning safety, working environment and emergency preparedness was transferred from the Ministry of Petroleum and Energy to the Ministry of Local Government and Labour. This had the effect of making the Norwegian Petroleum Directorate from that time on responsible to two ministries.

2.1 Operations of the Norwegian Petroleum Directorate

The Norwegian Petroleum Directorate supervises all licensees of the Norwegian Continental Shelf to ensure that the resources are managed in an efficient and prudent manner and to supervise regulatory compliance so that a responsible safety level and working environment are established, maintained and further developed.

The NPD has been delegated the overall authority to carry out supervision, perform total safety evaluations and issue regulations. When exercising its supervisory authority, the NPD

seeks assistance from other public bodies, institutions, and companies with special expertise. Such assistance is based upon mutually binding agreements. In addition the NPD is responsible for coordinating certain tasks between various public authorities with independent supervisory responsibility.

The NPD provides advice to supervising ministries and has been delegated the authority to issue regulations and make decisions regarding consents, orders, deviations, and approvals pursuant to the regulations. The NPD also makes available neutral information concerning the petroleum activities to the industry, the media and to society at large.

The NPD has grown from 50 staff, at its inception in 1972, to over 370 staff today. It is a modern, efficient regulatory body, with clear objectives and standards. More recently, the NPD has undergone a restructuring exercise to better focus its activities. Today the NPD is structured around three product areas:

- Framework and Advice: This product area develops and proposed overall terms for the petroleum sector in cooperation with the authorities, the industry and the unions.
- Supervision of Activities: This product area ensures that companies understand and observe the framework conditions established for petroleum operations on the Norwegian Continental Shelf.
- Data, Information and Knowledge Management: This product area has national responsibility for making data and information from the petroleum sector available to the NPD's partners and the public in general.

2.2 Operations of Statoil

Today, Statoil is an integrated oil and gas company with business operations in 25 countries, and over 16,000 employees. The company is an important player internationally in terms of reserves and production and a leading retailer of petrol and oil products in Scandinavia, Ireland and the Baltic states.

From its inception in 1972, Statoil's ability to concentrate on its core functions of upstream E&P and downstream retailing has enabled it to grow into a leading international oil company and a valuable asset to the Norwegian economy. Production of oil and natural gas on the Norwegian Continental Shelf is the mainstay of Statoil's business. But for more than a decade now the company has increased its activities in other countries and built up considerable petroleum reserves amid strong international competition.

The groups operations are pursued through the following business areas and organisational entities.

- Exploration and Production Norway
- International Exploration and Production

- Natural Gas
- Manufacturing and Marketing
- Technology
- Corporate Services

The following core operations are pursued within these business functions:

- Exploration for and production of oil and natural gas on the Norwegian continental shelf and in core assets internationally – West Africa, Caspian, Venezuela, Western Europe
- Supplying gas to the European market
- Delivering energy and products to retail markets in Scandinavia, the Baltic states, Poland and Ireland
- Processing petroleum through refining, petrochemical operations and methanol production.

After 29 years as a major state oil company during which time Statoil has provided the Norwegian government with the expertise, know-how, technology, and skills to develop its oil and gas industry Statoil was finally listed on the Norwegian stock exchange in 2001.

3 Review - Indonesia

3.1 Operations of Pertamina

Under current government regulations Pertamina is responsible for the production of oil and gas in Indonesia and is in charge of all petroleum ventures for Indonesia. Pertamina carries out its responsibilities principally through Production Sharing Contracts in cooperation with joint venture partners.

Pertamina also has responsibility for regulating the Indonesian oil and gas industry. This includes the approval of work programmes, and all regulatory compliance matters such as environmental, health and safety standards etc. Five regional offices regulate exploration and development activities.

Pertamina is responsible for all downstream oil activities and has a monopoly on the distribution of petroleum products. The company owns nine refineries and controls the franchising of gasoline stations. Pertamina also is involved in non-core oil and gas activities such as contract supply and shipping.

3.2 Financial Difficulties

Pertamina has a monopoly on upstream oil and gas development in that it is required to be included in all PSC's. This has meant that Pertamina is required to fund its share of development in all joint ventures. For Pertamina, funding such developments in times of low oil prices has had serious implications for cashflow management.

With the Asian economic crisis in 1998, and the collapse of the country's economy, approximately 75% of Indonesian businesses were technically bankrupt. The fall in the price of oil exposed Pertamina's financial difficulties, a situation that was exacerbated by problems of unaccountability and lack of transparency in Pertamina's business activities.

3.3 Restructure of Pertamina

In order to address the seriousness of the problem the Indonesian Parliament passed a new oil and gas law in 2001 aimed at restructuring Pertamina.

The new law authorises the establishment of an 'Implementation Agency' and a 'Regulatory Agency'. The Implementation Agency will replace Pertamina in managing Production Sharing Contracts with private oil and gas companies, thus eliminating the conflict of interest inherent in Pertamina regulating the activity of its competitors and joint venture partners. The Regulatory agency will assume the responsibility for managing domestic fuel distribution and supply, thus removing Pertamina's monopoly in the downstream sector.

In order to restructure Pertamina the government examined the organisational structure of major international oil producers. The government's objective has been to re-develop Pertamina such that it can focus on becoming a leading international E&P oil company, comparable to other leading oil and gas companies. After restructuring Pertamina will be able to clearly separate both its upstream and downstream activities.

The Government will continue to play a key role in the management of Indonesia's energy sector. All energy activities dealing with Petroleum and gas will fall under the Ministry of Energy and Mineral Resources, which is charged with creating and implementing Indonesia's energy policy. The Ministry of Energy and Mineral Resources is divided into several directorates with the Directorate General of Oil and Gas (MIGAS) responsible for all aspects of the petroleum industry, including its development, employee training, and promulgating regulations.