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Explaining Petroleum Policy in Britain and Norway, 1962–90

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Petroleum policy in Britain and Norway provides comparativists with an opportunity to study policy formation, stability, and transformation on a cross-national basis. This study explains why British and Norwegian officials decided to intervene in the North Sea, why offshore policy in the two countries went through periods of stability and change, and why they adopted similar offshore systems in the 1960s and 1970s but diverged markedly in the 1980s. We develop an explanatory framework using insights from state-centric, group politics, rational choice, and institutional models of policy-making. The framework identifies three decision-making contexts in which petroleum policy-makers operate simultaneously: an oil context, a domestic political context, and an international context. Each context establishes objectives for policy-makers, indicates an acceptable degree of government intervention, and narrows policy options. Rational decision-making within each context, however, may yield conflicting results. These must be worked out through intrastate and/or state–society bargaining. The decision-making contexts in Britain and Norway produced similar policies in the 1960s and 1970s, but the similarities hid deeper differences. Norwegian officials consistently favored state intervention offshore, and Norwegian interest groups successfully lobbied the state for offshore favors, while British officials intervened more reluctantly and paid less attention to societal interests. Differences in decision-making contexts finally produced a major divergence in offshore policies in the 1980s when the Thatcher government dismantled the state's offshore participation policy.

Offshore petroleum policy in Britain and Norway offers certain advantages to the student of comparative politics. First, several factors are controlled to a significant degree. For instance, British and Norwegian offshore resources have been developed in the same area, under harsh conditions, over the same thirty-year period, thus controlling for geography and history. Both countries are also mature, industrialized, western democracies, which eliminates some differences that could account for cross-national variations in policy. Second, the governance of petroleum activities on the continental shelf represented a new policy area for both countries. While Britain had two domestic oil companies (British Petroleum and Shell), it had very little experience with oil exploration on British soil.[1] Norway had no significant experience with onshore or offshore exploration. Finally, the two countries have pursued both similar and divergent policies since the early 1960s, making cross-national comparisons interesting.

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British and Norwegian offshore petroleum policy offers the comparativist an opportunity to study the decisions of two states under similar conditions. But what exactly needs explaining? This article focuses on four areas: initial policy development, policy stability, policy change, and cross-national variation. Initial government policy toward a new industrial sector contains two major decisions. The first decision is whether to intervene in the sector or let market forces and the existing legal framework suffice. If government decides to intervene, the next decision – in fact a set of decisions – must be the extent and character of the state's intervention. This study asks why British and Norwegian officials decided early in the 1960s to intervene in the North Sea, and why they chose their particular methods. It also asks why offshore policy in the two countries has gone through periods of stability and dramatic transformation. Finally, this study asks why Britain and Norway adopted similar offshore systems in the 1960s and 1970s but diverged markedly in the 1980s.

We address these questions by first building on the work of other students of government policy-making, some of whom have worked specifically on North Sea issues. We then apply this framework to British and Norwegian offshore policies as they evolved from 1962–90. In doing so, we pay particular attention to the origins of policy in both countries in the 1960s, the transformation of policy in the 1970s, and the British state's withdrawal from the continental shelf in the 1980s.

Developing an Explanatory Framework

State-centric and group politics models of policy-making have been used extensively to explain government decisions in recent years (Krasner 1978; Katzenstein 1985; Samuels 1987; Ikenberry 1988; Gourevitch 1986). Merrie Klapp (1987) combines elements of both theories to explain why Britain and Norway (along with Indonesia and Malaysia) established state-owned oil companies to manage their petroleum resources. Klapp's 'statist' perspective begins with the assumption that states[2] have interests apart from 'societal groups' – such as trade unions, environmental groups, and multinational corporations – that seek influence over government actions. The more autonomous the state, she argues, the more it will rely on public enterprises to serve its interests. The stronger the bureaucratic autonomy of the state the longer it will survive the attacks of societal groups and sustain its involvement in the industry. Some states, however, are unable to pursue their interests independently of societal interests. When groups or coalitions do attempt to extract concessions from the state, they use pivotal power: 'the ability to withhold small but critical amounts of resources upon which the state depends' (Klapp 1987, 59). For instance, they may use voting strength in parliament or seek to exert an influence over world financial markets to increase their bargaining strength *vis-à-vis* the state. Weaker states will concede more to societal groups and will thus not be able to expand or even sustain state operations offshore.

We can employ Klapp's modified statist framework to address our four policy areas. The autonomous interests of the state and the state's capacity to accomplish its goals determine the initial policies toward the offshore sector. Klapp assumes the state's interest is in controlling petroleum activities; the only barrier to state control is the lack of available tools. Once the state has created appropriate capacity to maintain control offshore, policy will remain stable as long as the state effectively neutralizes societal threats. However, if societal groups acquire some form of pivotal power, they will use their increased bargaining strength to extract concessions from the government that result in policy change. The state's ability to pursue its interests over those of society (state autonomy) and the presence or absence of pivotal power among societal groups explain cross-national similarities and differences. Strong states will pursue interventionist policies offshore, even over the objections of societal interests, while group interests will force weak states in weak bargaining positions to allow the private sector more offshore control.

The contribution of Klapp's perspective is its emphasis on the politics of policy-making (cf. 1983, 108). Interest groups alter government policy by gaining a strategic advantage that forces the state to make concessions in negotiations. The theory, however, assumes incorrectly that the British and Norwegian states have a consistent interest in state ownership offshore (Klapp 1987, 40). This assumption makes it hard for Klapp to explain the withdrawal of the British state from the continental shelf in the mid-1980s. She described Britain's partial sale of offshore assets as an 'adjustment strategy' to keep the 'national economy afloat' (Klapp 1987, 152), but she did not foresee the sale of all government offshore assets and the dismantling of the British National Oil Company (BNOC). The complete withdrawal of the state from active participation on the British shelf cannot be explained solely by group politics. A change in the state's perception of its interests, motivated primarily by Thatcherite ideology, clearly played a role (Nelsen 1991, 155–169). States may have interests, but Klapp does not account for the origin of those interests and how they might change.

Public choice theory addresses the question of how a state determines its interests by rejecting notions of 'national' interest and focusing instead on the interests of individual politicians and bureaucrats. Danny Hann (1986) employs a public choice perspective to explain petroleum policy formulation and implementation in Britain. Hann draws primarily on Downs (1957, 1967) and Niskanen (1971) to describe an economic theory of politics and bureaucracies that views the state, not as a single rational actor, but as a conglomeration of self-interested officials. Briefly, politicians – who are primarily concerned with staying in office, and thus winning votes – are forced to respond to political demands that often confuse and distort policy at the development and implementation stages. At the same time, bureaucrats – who are interested in maximizing their budgets – often compete with other state officials for resources, thus adding additional confusion to the policy process. In short, the state's interest is the sum of the often conflicting interests of politicians and bureaucrats who wish to maximize their power.

According to Hann, understanding the rational calculations of self-interested politicians and bureaucrats is the key to explaining government policy. Bureaucrats, seeking as much administrative responsibility as possible, and politicians, seeking to appease voters, will formulate initial policies. Once policy is implemented, bureaucrats in particular gain a stake in the operation of existing policies and resist any substantive change. Thus policy is normally stable. Change can and does occur, primarily at the behest of politicians sensing a change in the wishes of the electorate. Bureaucrats will resist change if it threatens their powers or budgets and will only reluctantly acquiesce when ordered by their political masters. Cross-national variations are not addressed directly in Hann's work, but he implies that differing political situations or differing abilities of state bureaucracies to acquire and maintain privileges would account for any differences in policies between countries.

Hann's perspective opens Klapp's black box – the process of determining state interests – by assigning interests to government officials. The theory accounts best for the increase in government intervention in the British petroleum sector in the 1970s and the incomplete nature of the state's pullout after Thatcher took office. State bureaucrats had clear interests in acquiring and maintaining control over important segments of the economy. Furthermore, politicians from both major parties, sensing the electorate's desire to keep Britain's oil British, had an interest in advocating similar interventionist policies in the 1970s.

Hann's theory, however, tells us little about how actual decisions are made. Unlike Klapp's, it offers little insight into how groups influence the decision-making process. Moreover, it cannot account for ideological decisions, and thus has a difficult time explaining the British state's complete withdrawal from the continental shelf. The theory also fails to determine systematically the context in which officials calculate their self-interest (Hall 1986, 10–13). Comparative analysis requires some examination of the factors affecting the context in which officials make rational decisions. Assuming British and Norwegian officials acted rationally in the 1980s, what accounted for the divergence in petroleum policy? A set of environmental factors would help us determine why one set of officials found it rational to reverse the trend toward greater state involvement offshore, while their counterparts in another country with similar policies did not.

March and Olsen have addressed the weaknesses of rational choice theory on several occasions (Cohen et al. 1972; March & Olsen 1976; March 1983, 1984, 1986; Olsen 1988). Rational choice theory assumes rational, unitary, informed, value-maximizing decision-makers; March and Olsen, however, stress the boundaries of rationality, the conflicts within government, and the ambiguity that infuses the decision-making process. Bureaucrats deal with uncertainty by relying on standard operating procedures rather than by examining the costs and benefits of a whole range of alternative choices. When the 'appropriate' response is unclear, officials attach solutions to problems, not on the basis of a rational calculation, but because they came to the attention of decision-makers at an opportune time. Thus bureaucracies often bring together problems, solutions, decision-makers, and choice opportunities in a temporal rather than logical way (March 1984, 746).

For March and Olsen, rationality still characterizes government decision-making, but it is highly dependent on institutional context. Decision-makers, for instance, when confronted by a new issue immediately search for an appropriate standard operating procedure. If procedures are missing or inadequate, officials look for available solutions. Once government officials have decided on a course of action, a revised set of standard operating procedures ensures policy stability under normal circumstances. Routines discourage significant change by limiting the impact of variations in the environment, regulating the access of interest groups, and restricting the range of options available to decision-makers. When change does occur, it usually comes as a result of a crisis situation that opens the system to major reform. Once these solutions are in place they become part of new routines that characterize a new stability (Olsen 1988, 18).

March and Olsen's perspective suggests that cross-national similarities and differences can be explained by exploring the organizational context in which decision-makers from different countries make intelligent choices (cf. Hall 1986). Differences in policy between countries may be explained by differences in administrative style, resulting in different standard operating procedures, or differences in the interest group structure and the access of societal interests to decision-makers. March and Olsen provide us with an important orientation toward policy-making that loosens the autonomy and rationality assumptions of statist and pure rational choice theories to focus our attention on the context in which decision-makers actually make choices.

Øystein Noreng (1980) applies a similar institutional approach to the comparison of British and Norwegian offshore policy. He identifies three different contexts in which petroleum policy-makers operate. At the oil level, government is 'concerned with practical solutions to problems directly related to the oil industry' (Noreng 1980, 110–111). At this level officials make decisions based on 'good oil field practice' and the requirements of the petroleum market. Economic efficiency is the primary goal. At a domestic political level, however, 'government is subject to pressure from an electorate that holds. . . states. . . accountable for national economic performance'. In this context, policy-makers are 'essentially concerned with the government's ability to survive and maintain freedom of action amid conflicting pressures' (Noreng 1980, 110). Here societal groups and self-interested politicians and bureaucrats struggle for control of policy outcomes. Finally, on an international level governments must consider the global political context when making policy decisions. Western countries, because they are dependent on the smooth operation of the international system, are particularly bound to 'respect their international agreements and commitments', even when conditions change (Noreng 1980, 110). Foreign policy goals, therefore, are of primary importance at this level.

Noreng's three contexts, enhanced by the contributions of Klapp, Hann, and March and Olsen, provide a framework for analyzing British and Norwegian petroleum policy. Each context establishes objectives for policy-makers, indicates an acceptable degree of government intervention, and narrows policy options. Within these contexts, different notions of 'rationality' prevail. For instance, within the oil context, rational decision-making is based on the perceived potential of the petroleum province and the energy needs of the country, as well as principles of economic efficiency and good oil field practice. In general, the more risky the province and petroleum-starved the country, the more important the economic efficiency. Conversely, the more attractive the province and energy self-sufficient the country, the less important the efficiency. In a domestic political context, determining what is rational is even more complex. Here politicians and bureaucrats, beset by interest group demands and pressure from other government organizations, pursue their self-interest – political survival and organizational power. What is rational in this context is what serves the interests of the strongest participants in the political process. Within the international context, policy-makers define rationality in terms of national interests. Government authorities must consider pressure from other states, the nation's position in the international system, and the requirements of international law when determining a course of action.

These 'decision-making contexts' establish goals, policy directions, and acceptable options, but they do not determine government decisions. Policy-makers must still make specific policy choices, even when the three contexts lead to similar conclusions. In doing so, they may apply a standard operating procedure, or choose a solution that rises to their attention in a timely fashion. The three contexts, however, often produce conflicting 'rational' solutions to policy questions. For instance, within the oil context, it may be most efficient to develop and deplete an oil field as fast as possible, but in a domestic political context, it may be most rational for the government to limit production to demonstrate to the electorate its commitment to national control of offshore resources. Policy-makers resolve these conflicts through intragovernmental bargaining, bargaining with societal interests, or both. Who participates in the negotiations and what resources they bring to the process depends on the structure of the policy-making process and the nature of the organizations involved.

Viewed through this framework, initial policy is guided by the decision-making contexts, but actually formulated by officials looking for standard operating procedures they can adapt to new problems. Once government officials make their decisions, policy remains stable until some disturbance in the environment changes the contexts and raises new problems that can only be resolved by changing existing policy. Decision-makers must again adapt standard operating procedures or, perhaps, apply a solution floating through the organization in search of a problem (Cohen et al. 1972). The framework also helps explain cross-national similarities and differences by comparing decision-making contexts, institutional structures, and standard operating procedures in two or more countries.

Explaining Petroleum Policy in Britain and Norway

The Early Years

In 1962, both British and Norwegian officials were surprised by the sudden interest of oil companies in exploring for hydrocarbons in the North Sea. The companies were free to operate in international waters without interference from littoral governments, but legal uncertainties made it too risky to invest large sums of money to exploit petroleum discoveries. Therefore, the companies asked the two governments to clarify the legal situation. State officials were confronted by two issues. The first concerned legal rights in the North Sea (international boundaries on the continental shelf, and ownership of resources under the seabed) and the second involved state governance of offshore activities (who would be allowed to look for and exploit resources, under what conditions). Both of these issues were new in their particulars, but related to issues the states had faced in the past.

The issue of international legal rights, while not controversial enough to involve the domestic political context, was important for government bureaucrats and legal experts at the oil and international levels. At an oil level, officials recognized the need for legal stability to provide security for long-term offshore operations. At an international level, officials realized the importance of a legal framework that both followed international law and guaranteed national sovereignty over resources on the continental shelf. In this case the two decision-making contexts produced complementary goals.

Fortunately for Britain and Norway, international law was already moving to legitimate national declarations of sovereignty over the continental shelf. The 1958 Geneva Convention that enumerated these new rights had not yet come into force in 1963 but provided the British and Norwegians with the necessary legal framework. The Norwegians acted first by declaring sovereignty over resources on the Norwegian Continental Shelf to the depth of the sea where current technology permitted their exploitation.[3] The British ratified the Convention in 1964 and then sat down with the Norwegians to draw their common international boundary in the North Sea.

Establishing domestic ownership of offshore resources also required policy-makers to look for available solutions, this time in the form of standard operating procedures. Both the House of Commons and the Storting, by mid-1964, had passed typical 'authority acts' (Tønne 1983, 732) that vested all petroleum resources on the continental shelves in their respective Crowns and gave the governments the right to decide who would operate offshore, under what conditions. The British Parliament was following a precedent established by the Petroleum (Production) Act of 1934 that governed a small onshore petroleum sector. The Norwegians were acting in the spirit of their strict concession laws, which required enterprises to apply for concessions from the state before developing natural resources (Nelsen 1991, 23; Lægreid et al. 1989, 149). Thus, on questions of sovereignty and resource ownership, British and Norwegian, officials followed international and domestic legal precedents.

With several legal questions behind them, British and Norwegian officials set out to establish licencing systems to govern offshore activities. Policy-makers, at the oil level, needed to find out whether or not the continental shelf contained significant hydrocarbon reserves. States did not possess the capacity to explore for oil and gas; private companies did. Officials, therefore, had to make their continental shelves attractive to oil companies by regulating the industry as little as possible. Britain and Norway found themselves in competition with one another for offshore investment, with Norway and its less promising territory at a disadvantage.

On a domestic political level, policy-makers were aware that traditional distrust of the international oil companies in Britain (Jones 1981) and strong nationalist sentiment in Norway would make complete foreign control of offshore resources politically untenable. Both state bureaucracies, with their post-war traditions of substantial involvement in the economy (Grønlie 1991), also had an interest in exercising some control over petroleum activities. But the depth of commitment to state intervention differed. Norwegian bureaucrats, who had engaged in extensive economic planning and other forms of active intervention since World War II, were prepared to intervene more quickly and thoroughly than their British counterparts who generally took a more 'arms-length' approach to specific industrial sectors (Bjerve 1959; Knudsen 1980; Olsen 1983; Lafferty 1984, 1990; Carlsson 1988; Andersen 1988; Shonfield 1965; Jordan & Richardson 1982; Zysman 1983; Hall 1986; Vogel 1986). Opposed to state control of petroleum activities were the oil companies, who threatened to take their investments elsewhere if dissatisfied with government conditions. Both governments were aware that the companies were taking the risks in the North Sea and had to be accommodated to some degree. Working against the British state's interest in offshore control was the nation's long-standing need for secure petroleum supplies and its chronic balance of payments problems. These interests, which were not present in Norway, made British officials far more eager to speed up the exploration process – implying less government interference – than Norwegian policy-makers.

Finally, on an international level, British and Norwegian officials had slightly different interests. The British, with their extensive political and commercial involvement in the Middle East, did not want to set a precedent harmful to British interests overseas by creating an onerous licencing system at home. Therefore, within an international context, the British were inclined to give the companies greater freedom. The Norwegians, lacking any oil interests abroad, were not as concerned about the perceptions of distant countries. Their primary foreign policy concern was maintaining good Atlantic relations, which usually meant following Britain's lead.

The three decision-making contexts yielded some conflicting results but on the whole encouraged policy-makers in both countries to intervene minimally. Oil considerations encouraged government authorities to offer private companies the maximum freedom possible without encouraging chaos. Domestic political considerations, on the other hand, gave policy-makers, especially in Norway, strong incentives to exercise an important degree of control on the continental shelf, but these interests were opposed by the oil companies, the only well-organized petroleum lobby in either country in the early 1960s. Tipping the balance in Britain in favor of the oil companies was the country's immediate need for self-sufficiency in oil. Foreign policy considerations also encouraged British officials (and their Norwegian followers) to limit their intervention in the petroleum industry.

With the important decision-making contexts all pointing toward minimal state intervention, British and Norwegian officials established a regulatory system to govern the continental shelf. In Britain, a small group of officials in the Ministry of Power developed an offshore licencing system in 1964 that proved attractive to both the petroleum industry and government bureaucrats. The ministry committee drew on a variety of experts for advice, but most of its decisions were the result of unofficial bargaining with two committees comprised of oil company representatives (Committee of Public Accounts 1973). The negotiations resulted in a system that gave greater freedom to the oil companies to exploit petroleum resources and keep the profits, but also introduced a series of incentives designed to encourage rapid exploration and development of the British shelf. The small size of the offshore blocks, the progressive yearly fees for licenced territory, and the relinquishment requirement (which required the licensees to return half of their territory after six years) promoted speedy exploration of licenced blocks. More importantly, the ministry committee decided to leave the allocation of offshore blocks to the discretion of the Ministry of Power rather than institute an American-style auction system. The companies supported the Ministry in this decision because an auction would have meant higher initial costs; the state officials supported discretionary allocation because it permitted them to choose companies willing to execute an extensive offshore exploration program. This power directly affected the exploration phase of petroleum development, but other phases only indirectly. Companies interested in future licences had to avoid angering ministry officials, but the state had little direct influence over the planning and installation of offshore equipment, or the rate of offshore oil and gas production.

The Norwegians, who were not under such economic pressure as the British, took a year longer to study their offshore options before issuing their own regulations in April 1965. As in Britain, a small group of civil servants appointed to a body called the Petroleum Council established the first licencing system. Norway's long history of regulating foreign investment in natural resources made Norwegian officials more interested in directly controlling offshore petroleum activities than their British counterparts.[4] But while Norwegian concession law provided a precedent for regulating foreign investment, Norwegian officials, by their own admission, modeled the specifics of the offshore licencing system after the British example (*Petroleum Press Service* May 1965, 187). The system incorporated incentives for speedy exploration of the Norwegian shelf, but to be competitive in the North Sea where British territory was considered more attractive, the Petroleum Council, after consulting the companies, made each element of the system slightly weaker than its British parallel. For example, the Norwegian system gave companies greater flexibility during the exploration phase by offering bigger blocks for lower (although still progressive) fees and more lenient relinquishment requirements. Likewise, during the production of oil and gas, the state promised to take only 10 percent of the petroleum in royalties, compared with 12.5 percent in Britain. Like the British, the Norwegians also adopted a discretionary allocation method of distributing blocks that allowed them to negotiate a work program with the offshore applicants to assure rapid and thorough exploration of allocated territory.

The British and Norwegians created very similar licencing systems in the 1960s that incorporated a minimum of state intervention. The decision-making contexts for both countries pointed to policies that relied primarily on private companies operating in a minimally regulated environment. Small groups of experts in both countries formulated policies that incorporated standard operating procedures, bargains with oil companies, and, in Norway's case, a policy solution (the British model) that had recently arrived on the scene. The licencing systems developed in the 1960s remained stable for a brief period until external changes altered the decision-making contexts for policy-makers in each country.

States Offshore

Three changes occurred in the early 1970s that transformed the decision-making contexts for petroleum policy-makers on both sides of the North Sea. The first change occurred at the oil level when both the petroleum industry and the Norwegian government recognized that a petroleum discovery made by Phillips Petroleum Company in December 1969 was a giant oil field. The Ekofisk field transformed the North Sea from a relatively minor British natural gas province to an oil province of tremendous potential that incorporated both the British and Norwegian sectors. Now as a proven oil province, the Norwegians were in a better position to compete with the British for offshore investment. The Ekofisk discovery also forced government officials to think seriously about offshore development issues, including the landing of offshore petroleum, the use of domestic offshore goods and services, and the protection of the environment and offshore workers. Most of these issues had solutions dictated by economic efficiency: oil and gas should be transported to an economically appropriate site (not necessarily in the home country); companies should use the best offshore products at the best price (even if foreign); and environmental and worker protection should not hamper the oil production process. These solutions at the oil level, however, did not always match those obtained in other contexts.

The second change altering the decision-making contexts was the politicization of petroleum policy, which affected the domestic political context. Prior to the discovery of Ekofisk – and the host of big oilfields that followed in both sectors – petroleum policy in the two countries was handled by a small group of civil servants and petroleum experts in close contact with the oil companies. After Ekofisk, the control of oil gradually became a political issue that brought parties and interest groups into the decision-making process. In Norway, a consensus existed around the need for greater Norwegian control of offshore activities. The government bureaucracy and the Storting had created a new administrative structure by mid-1972 that gave the state the institutional capacity to exercise greater offshore control. The Storting established an administrative department (eventually the Ministry of Petroleum and Energy) to guide petroleum policy, a Norwegian Petroleum Directorate to provide the government with technical advice, and a state oil company (Statoil) to manage the state's shares in new offshore licences.

These new institutions were not controversial in Norway, but controversy did surround the government's planned use of its new capacity. The Norwegian left, which governed during most of the 1970s, favored state control of offshore activities, a relatively slow rate of petroleum production, and the application of offshore revenues to an expanded welfare state. The right, while unenthusiastically supporting Statoil, called for a greater degree of national control of offshore activities through private Norwegian companies that would invest their profits in the domestic economy. Also participating in the oil debate were special interest groups, including fishermen seeking compensation for lost fishing grounds, environmentalists seeking to halt or severely restrict offshore drilling, unions seeking higher wages and safer working conditions, Norwegian shippers and manufacturers looking for offshore contracts, and local communities seeking onshore supply bases. All of these groups were looking to the state to intervene in the petroleum industry on their behalf. The oil companies opposed these groups, but from a weaker position now that the Norwegian shelf was more commercially attractive. Thus, within a domestic political context, Norwegian policy-makers, who were already predisposed to support greater state control of offshore activities, were urged by a variety of domestic interests to increase state involvement.

In Britain, the petroleum policy debate did not begin until 1973 when a parliamentary committee issued a report (Committee of Public Accounts 1973) chastising the Heath government for not reviewing British policy in light of changes made to concession systems in other parts of the world, particularly Norway. As in Norway, the political and administrative elite reached a quick consensus on the need for more government control offshore, but unlike Norway, the political parties could not agree on the form of this control. The two General Elections of 1974 were fought between a Conservative party favoring higher taxation of petroleum profits and strict government regulation of offshore activities, but no direct state involvement, and a Labour party, calling for majority state ownership of offshore licences and the creation of a state oil company. Labour victories in both elections meant Parliament would attempt to enact the party's vision for the British shelf. Absent from the domestic political context in Britain was a civil service committed to state entrepreneurial activity offshore (although committed to bureaucratic control) or a plethora of interest groups seeking to influence petroleum policy. Labor unions and British manufacturers pushed for offshore contracts, while domestic oil companies sought offshore licences; but in general, British interest groups had less access to petroleum policy-makers and were less influential than their Norwegian counterparts (Klapp 1983). The influence of the international oil companies was weakened in Britain, as in Norway, by the discovery of oil, but the companies remained powerful opponents of increased state control of activities on the British shelf.

Thus, at the domestic political level, policy-makers in Britain were primarily concerned with carrying out the Labour mandate for greater state control of petroleum activities through state ownership. They also remained committed to the speedy development of the British shelf, which required the cooperation of the oil industry. Thus, in Britain, the state and the oil companies were forced to bargain longer and harder to reach compromises between increasingly divergent positions.

The third change that altered the decision-making context for policy-makers was the revolutionary transfer of power in the international petroleum system from the major oil companies to the producer states of OPEC (Sampson 1975; Tétreault 1985). The events in the Middle East that culminated in the crude oil price increases of 1973 and 1974 gave producer governments the upper hand in negotiations with the oil companies, while also eliminating Britain's need to act cautiously in the North Sea to prevent harm to British oil interests. Britain and Norway were in a particularly good position to capitalize on producer strength as politically stable, non-OPEC democracies with great potential as petroleum provinces. Within an international context, therefore, policy-makers were encouraged to exercise greater control of their nation's petroleum wealth by the world-wide transfer of power to producer states.

The discovery of oil, the politicization of petroleum policy, and the shift of power to producer nations altered the decision-making contexts for policy-makers in Britain and Norway. At an oil level, economic criteria still favored minimal state intervention on the continental shelf. This tendency was overruled by strong political forces in each country and global trends that favored greater state control of the oil industry. As a result, policy-makers in both Britain and Norway regulated and participated in offshore activities in the 1970s.

The Norwegians were the first to transform their offshore licencing regime using the institutional tools, including Statoil, created in 1972. The new licencing regulations stiffened the terms offered the oil companies by shortening the duration of the licences, increasing the fees, and raising the royalties on some fields. More importantly, the regulations gave the state the right to participate in every future offshore licence. The new system allowed the state to award itself a predetermined interest in every licence, an interest the private companies would financially 'carry' through the exploration phase. If the consortium discovered a commercially viable field, the state, through Statoil, could continue to participate, but would now contribute its share of the development costs. In addition to these changes in the offshore regime, the Storting also approved a new offshore tax system designed to acquire for the state a large portion of the increased offshore profits.

For Norwegian officials, the new licencing terms represented a minimum position; at the bargaining table they pressed for more concessions from the companies. The authorities quickly set state participation at 50 percent for new licences, but went on to establish, by agreement with the companies, a 'sliding scale' for each licence that would raise Statoil's share if the group found a commercially viable field. In practice, the state could control up to 85 percent of a licence if the field was very large; lower percentages applied to smaller finds. Furthermore, state officials implemented the Storting's desire to pursue a 'moderate' rate of petroleum extraction by (1) slowing the allocation of offshore licenses, (2) acquiring the power to set the time schedule for field development (thus the start of production), and (3) exercising the right to approve petroleum production plans.

Throughout the 1970s Norwegian authorities, pressured by Norwegian shipping, manufacturing, and labor interests, used the new offshore system to favor Norwegian drilling rigs, oil companies, and offshore supply firms. By 'Norwegianizing' the continental shelf, especially through the allocation of licences to Norwegian-led consortia, policy-makers met political goals without driving most of the international oil companies out of the sector.

The British did not transform their offshore system until after the Norwegians, but the result was a similar shift in policy from minimal state intervention on the British shelf to state participation in the oil industry. The centerpiece of Labour's offshore program was BNOC, which Parliament created in 1975 to manage the state's share of offshore licences and otherwise to operate in the interest of the British people. Following the Norwegian model, British officials gave BNOC the right to 51 percent of every new licence on a 'carried interest' basis.[5] Furthermore, the government negotiated with the oil companies a series of participation agreements that gave BNOC the formal title to 51 percent of all existing licences covering over eight hundred blocks. In reality, these agreements gave BNOC the right to 51 percent of the petroleum produced on the British shelf, plus a seat and a vote (but not a veto) on the operating committees of North Sea consortia. As a result of the government's participation policy, BNOC became a major European oil trader and a significant offshore operator after 1976.

After putting the participation question behind them, British officials proceeded to strengthen their control of offshore activities. The Department of Energy (DOE) issued new terms for the fifth licencing round in 1977 that paralleled the terms offered in Norway. Relinquishment requirements, licence duration, and annual fees were all changed to reflect the new, harder line. The DOE, of course, granted BNOC 51 percent of all new licences, but, in addition, favored the company by appointing it as operator for several attractive blocks and by granting it licences in a special round not open to private companies. The Labour government, with Conservative backing, also introduced a new Petroleum Revenue Tax designed to capture for the Treasury the benefits of rising oil prices. Furthermore, British officials acquired powers to control petroleum production directly, but promised not to exercise them until at least 1982. Indirect methods of production control, for instance the new requirement that companies file regular production plans for government approval, were in place by 1976, but again the DOE decided not to use these tools to manage the rate of petroleum depletion. Government officials did decide in the 1970s to push oil companies hard to buy British offshore goods and services. A new Offshore Supplies Office (OSO) established an auditing system designed to open the offshore purchasing process to British companies, but which in practice pressured the companies to buy British products to please the DOE officials awarding licences.

Despite differences in the domestic political context, Britain and Norway established new offshore systems in the 1970s that, as in the 1960s, looked remarkably similar. Through the new regulatory structures and state companies, government authorities in both countries exercised significant control over every aspect of offshore petroleum development. But differences existed. Norwegian politicians, civil servants, and interest groups all desired greater state involvement offshore. The international oil companies, the non-socialist political parties, and some shipping and business interests did succeed in limiting the state's control in some instances,[6] but generally the interventionist interests had the upper hand. The British Labour government never achieved the same level of control as the Norwegian state. Offshore development in the British sector was far ahead of that in the Norwegian, meaning the oil companies were more entrenched in the British sector and less willing to give up rights they already enjoyed. Furthermore, British fishing, environmental, and shipping interests lacked pivotal power and were far less influential in the petroleum policy-making process than were similar interests in Norway (Klapp 1983). These differences were not as crucial to policy outcomes in the 1970s, but this changed in the subsequent decade.

Diverging Paths

In the 1980s, British and Norwegian petroleum policy diverged after following nearly the same course for almost two decades. To explain this phenomenon, we look first to the decision-making contexts. A major change at the oil level occurred as market forces and political weakness overwhelmed OPEC and forced the price of oil down, gradually at first, then dramatically in 1986 (Cowhey 1985; Mabro et al. 1986; Nelsen 1991). The price drop forced oil companies to re-evaluate their spending on exploration and development, especially in high-cost areas like the North Sea. The industry required greater cost efficiency offshore and consequently became less tolerant of government intervention. The companies, however, faced governments in different situations.

In the 1980s the North Sea reached maturity as a petroleum province: companies had discovered most of the big oil and gas fields and were concentrating on smaller structures. Maturity posed some concern for the Norwegians, who were finding too much gas and not enough oil. These concerns were mild, however, for Norway had minimal petroleum needs and great areas of unexplored continental shelf to the north. The situation in Britain was different. High petroleum energy needs meant Britain would have to maintain high domestic production levels to sustain self-sufficiency. Unlike Norway, Britain had few unexplored areas left on the British shelf that were considered highly attractive. Therefore, British policy-makers, in an oil context, recognized the necessity of boosting exploration in the British sector, while the Norwegians were only concerned that adequate exploration should continue. This difference in outlook made the British more willing to make concessions to the private companies.

The decision-making contexts for British and Norwegian officials also diverged at the domestic political level. In Britain, Margaret Thatcher's Conservative party launched an attempt to restructure the British economy by relying on market solutions to economic problems. The Conservatives made it clear from the beginning that state power would be reduced on the British shelf, but until privatization became a primary objective of the government in mid-1981 (Riddell 1983), this only meant eliminating the state-enforced privileges of BNOC. The Thatcher government and the bureaucracy had little interest in reversing government regulation of offshore activities – to the dismay of the oil companies. But the government and the cash-hungry Treasury eventually united in favor of ending the state's entrepreneurial activities on the continental shelf through the sale of the state's offshore assets. In Norway, the Conservatives assumed leadership of the government from Labor in 1981, but neither the Conservative party nor its coalition partners (after 1983) wished to pursue a Thatcherite agenda. Few Norwegians questioned the need for the state to play a strong role in the economy, particularly in the petroleum sector, but many non-socialist politicians, shippers, and other supporters of private interests on the Norwegian shelf advocated trimming Statoil's considerable financial and political power. Those supporting Statoil and continued state intervention offshore were the many groups benefiting from the state's actions in the 1970s: coastal communities, unions, Norwegian offshore suppliers, fishermen, and environmentalists. Thus in Norway, important political and bureaucratic interests had a stake in maintaining the existing system, although some political will existed for clipping Statoil's wings.

At the international level, OPEC found it increasingly difficult in the early 1980s to dictate the price of oil as non-OPEC supplies flooded the international market. Saudi Arabia launched a price war in late 1985 against both OPEC and non-OPEC producers (particularly Britain and Norway) undercutting the official OPEC price. OPEC put tremendous pressure on the North Sea producers to bring order to the market by cooperating with the cartel; and once again, British and Norwegian interests diverged. The Thatcher government was ideologically opposed to state-managed markets. But even on non-ideological terms, Britain had compelling reasons for refusing to cooperate with OPEC: it had no reason to alienate its Western allies, would benefit from lower energy costs, and would soon experience declining production levels and thus market influence. Norway, on the other hand, exported far more of its total oil production than Britain, making it more dependent on high oil prices. In addition, unlike Britain, its rate of oil production was expected to rise well into the 1990s. Finally, the nation had traditionally been a bridge-builder between the West and the Third World and often identified with Third World causes. There were good reasons for Norway to cooperate with OPEC.

In sum, at the oil level, British and Norwegian officials recognized the need to loosen regulations and tax requirements to encourage offshore activity in a world-wide oil slump. But the British were more likely to act quickly than the Norwegians. At a domestic political level, British officials set out to enact Thatcherite policies of privatization on the continental shelf that were opposed only by a defeated Labour party and reluctant bureaucrats. In Norway, most groups supported Statoil and government intervention, although the Conservative-led government advocated reducing Statoil's power. Finally, at an international level, British policy-makers recognized that national interests lay with the western consumers, while Norwegian officials found it more difficult to turn their backs on OPEC.

The differences in decision-making context, not surprisingly, produced differences in policy in the 1980s in Britain and Norway. The Norwegians altered their management of the Norwegian shelf in important ways, but not enough to indicate a dramatic policy shift. Norwegian officials tightened their control of offshore consortia by codifying their right to choose the partners, assign the interest each partner would have in the licence, and select the consortium operator. The Ministry of Petroleum and Energy, in an attempt to control the rate of offshore investment, also established an offshore queue for licensees awaiting permission to develop commercial discoveries. Furthermore, the new Labor government announced a commitment to limit Norwegian oil production by 7.5 percent in support of OPEC.

These measures strengthened the state's control of the Norwegian shelf, but three other measures loosened the state's grip. First, in 1986 the state created a tax system more favorable to the oil companies in response to the oil price collapse. Second, in 1984 the Storting stripped Statoil of many of its privileges on the Norwegian shelf, and channeled much of the state's income from its offshore holdings directly to the treasury instead of through the state company. Statoil came under fire again at the end of the decade after a scandal over building costs at the Mongstad refinery revealed major financial and political abuses. Statoil was reorganized, and by the end of the 1980s had become less a tool of government policy and more a commercial enterprise operating on the state's behalf. Third, the state also reduced its participation requirements, allowing private interests to own more than 49 percent of a licence in some cases.

In contrast to the Norwegians, British officials spent the 1980s again transforming petroleum policy. This time the state withdrew from activities on the continental shelf. By the end of 1986, the Thatcher government had sold the state's offshore operations, dissolved BNOC, sold British Gas (BG) and ended BG's monopoly position in the natural gas market. The state kept its participation agreements with the companies, not as tools of intervention, but as safeguards against threats to the domestic petroleum supply.

What remained after the Tory remake of British petroleum policy was the regulatory structure built by Labour. The special tax system created in 1975 remained, but Parliament made significant adjustments to give companies greater incentives to produce oil. DOE officials continued to approve development and production plans and police regulatory compliance on the continental shelf, but they decided not to limit production by fiat. Furthermore, the explosion on the Piper platform in 1988 suggested serious shortcomings in safety regulation and enforcement. The DOE still allocated most licences by discretion, but the auctioning of some territory became more common. The OSO and the DOE remained powerful enforcers of an unofficial 'buy British' policy that continued to anger European and American offshore supplies manufacturers.

British and Norwegian offshore policies diverged in the 1980s as the British state ended its participation on the continental shelf. In Norway, only minor changes in the decision-making contexts made significant change in Norway unlikely. The depressed oil market did force Norwegian officials to restructure the tax regime, allow Statoil to operate on commercial terms, and reduce the state's financial exposure on the Norwegian shelf. But Norway's less mature oil province, low energy needs, vocal interest groups, and basic consensus on the legitimacy of state intervention in the economy made a complete withdrawal of the state from participation offshore almost unthinkable. In Britain, changes in the decision-making contexts did not make change inevitable, just possible. Britain's continued need for large amounts of oil and the greater influence of the oil companies on government decisions made a reduction of government influence on the British shelf a viable alternative to the policies of the 1970s. The decisive factor in the transformation of British policy was the ideological commitment of the Thatcher government (backed by the Treasury's need for cash) to the sale of government enterprises. Tory privatization plans ran into resistance in the bureaucracy and might have stalled if the collapse in oil prices had not made holding on to BNOC a drain on the Treasury. The success of privatization, however, owes as much to changes at the oil level as at the political level: without a decline in the oil price, the privatization of a massive revenue producer like BNOC would have been very difficult to sell to the Treasury or the public.

Conclusion

Britain and Norway have pursued remarkably similar petroleum policies over a span of thirty years. They established similar offshore licencing systems, taxation regimes, government oversight procedures, and state enterprises. The similarities, however, masked deeper differences in policy style that eventually led the two nations down different roads in the 1980s. Norwegian state officials were always more willing to intervene more extensively on the continental shelf than their British counterparts; the decision-making contexts tell us why.

From the beginning, both British and Norwegian policy-makers faced the task of attracting international oil companies to a high-risk, high-cost petroleum province. Thus, at an oil level, the demands of economic efficiency dominated the decision-making process. But this was always more true for Britain than Norway. Britain's high demand for oil and its chronic need for exports to assist the balance of payments made the country more dependent than Norway on a high rate of petroleum production. The British were, therefore, more willing to conform to the dictates of economic efficiency to attract and hold the interest of international oil companies than were the Norwegians.

The greater willingness of Norwegian authorities to intervene offshore was reinforced at the domestic political level. In the early years, government officials in both countries made offshore policy in virtual isolation. During this period, where the preferences of policy-makers dominated the political context, Norwegian officials demonstrated a desire to intervene more extensively on the continental shelf. After politics entered the policy-making process in the 1970s, more groups, demanding more government intervention, and facing less resistance, took part in the policy-making process in Norway than in Britain. Thus, at a domestic political level, Norwegian officials were always more willing and politically able to intervene extensively in the petroleum industry.

At the international level, British officials, aware that their offshore policies had implications for foreign policy, were less inclined to favor extensive government intervention in the petroleum sector, especially in the 1960s – when protecting Middle East interests – and the 1980s – when protecting Atlantic interests. Norway had fewer foreign policy constraints on its interventionist policies. Pressure from OPEC, in fact, encouraged Norwegian officials to restrain oil production in the late 1980s.

Taken as a whole, the decision-making contexts in Britain and Norway pointed the two countries in different directions from the start. It took two decades, however, before policy visibly diverged. We cannot fully explain the deep differences that eventually resulted in this divergence by examining contexts alone. History and culture, for instance, play an important role in shaping administrative styles and, therefore, the decision-making contexts themselves (Andersen 1988). But decision-making contexts do help us understand the complex environment of the policy-maker, and, more importantly, the rationale behind specific decisions. If we couple an elucidation of decision-making contexts with a March and Olsen view of policy as groping for available solutions, we can satisfactorily explain the evolution of petroleum policy.

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1. Production in the Midlands has produced very small amounts of oil since the 1930s.
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4. Questions concerning direct state participation in offshore blocks were raised in official documents as early as February 1968 (Nelsen 1991, 29–30).
5. BNOC did not, in fact, exercise its right to be carried through the exploration phase, preferring instead to delay paying its share of development costs until a field was in production.
6. The political right succeeded in checking some state power by pushing the offshore interests of Norwegian oil companies like Norsk Hydro and Saga.

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