

Managing Resource Booms: The Norwegian Sovereign Wealth Fund

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A Norwegian style sovereign wealth fund could enable all Australians to benefit from Australia's natural resources and help Australia manage the next resource boom.

Gas companies operating in Australia have high levels of foreign ownership with a large share of profits going offshore. These companies also contribute little tax.¹ In contrast, Norway has been taxing the profits of its oil and gas industry at 78% since the 1990s, building the world's largest sovereign wealth fund.

Norway's approach to natural resource management is premised on common ownership using revenues from the resource sector to ensure long-term stability and security for all. According to Jens Stoltenberg, former Prime Minister of Norway:

"The natural resources in the ground, that's something we own in common. It's not private ownership"



Image source: "Avoiding the Oil Curse" (2014). Former Prime Minister of Norway Jens Stoltenberg.²

Norway's sovereign wealth fund (*Statens Pensjonsfond*) was established in 1990 to invest Norway's oil and gas revenues into foreign stocks, bonds and real estate.³ In 2021, the Fund also began investing in renewable energy infrastructure.⁴ The fund is officially known as the Government Pension Fund Global and previously known as the Petroleum Fund of Norway.

When the Fund was first established, Norway was experiencing high revenue from oil production. Due to fluctuating oil prices over time, a need for the management of this revenue with a long-term view was identified.⁵ The purpose of the Fund is to invest the revenues from fossil fuel industries into more sustainable sectors to provide security for the country and its people into the future.⁶ The first money transfer to the Fund was made in 1996.⁷

The Fund is entirely owned by the Government of Norway and is administered by the Ministry of Finance and the Norwegian Central Bank (Norges Bank).⁸ It owns stakes in over 9,000

companies across 70 countries, representing over a 1.3% stake in the world's publicly-listed companies.⁹

The *Government Pension Fund Act* stipulates the Government's entire net cash flow from the petroleum industry shall be transferred to the Fund.¹⁰ The 78% tax rate in Norway comprises the company tax rate of 22% and a special petroleum extraction tax rate of 56%.¹¹

On top of taxation of private companies, the Norwegian government also has partial direct ownership of petroleum companies contributing dividends to the fund.

The Norwegian Ministry of Petroleum and Energy estimates that tax revenue from petroleum in 2022 was NOK 536.8 billion (A\$77 billion).¹²

The Fund is currently valued at NOK 11.6 trillion (A\$1.7 trillion). Although the Fund has been built with petroleum revenue, petroleum deposits now only make up less than half its value.¹³ The majority of value in the Fund now consists of revenue earned from investments in equities, fixed income, real estate, and renewable energy assets.

Withdrawals from the Fund to the government's budget must be limited to the expected real return on the Fund. Only the return is spent, not the fund's capital. **Although this return is generally around 3-4%, the fund is so large that this contributes almost 20% of the Norwegian government budget.**¹⁴

The Fund is prohibited from investing in Norwegian companies, infrastructure, real estate, or securities denominated in Norwegian kroner.¹⁵ This is to decouple the Fund from the Norwegian economy so that if the domestic economy suffers a downturn the Fund is protected.

Since 2004, the fund has been subject to ethical guidelines. The Norwegian Ministry of Finance set up an independent Council of Ethics to determine whether investments are consistent with the Guidelines.¹⁶ If a company is violating the guidelines the Council of Ethics can recommend the company be excluded from the Fund. Australian companies AGL, New Hope and Whitehaven have been excluded on ethical grounds around coal.¹⁷

The establishment of a sovereign wealth fund modelled after Norway's offers an opportunity for revenue from Australia's natural resource sectors to provide social and economic benefits for the public, through rigorous taxation, diversified and secure investment of tax revenue, and contribution of returns to the budget.

The world is moving away from fossil fuels towards a clean tech industrial revolution, which will likely drive a clean tech resource mining boom in lithium, nickel, and other resources.¹⁸ Australia has a once-in-a-century opportunity to establish a Norwegian style sovereign wealth fund and share the benefits of the next resource boom with all Australians.

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² Stoltenberg (2014) *Avoiding the Oil Curse*, <https://youtu.be/8f6geiVdwPk>

³ Fouche (2022) *Rocky ride ahead for Norway's \$1.2 trillion wealth fund*, <https://www.reuters.com/world/europe/norway-sovereign-wealth-fund-ceo-warns-rocky-ride-ahead-2022-05-03/>

⁴ Ghosh (2021) *Norway's Sovereign Wealth Fund Makes First Investment In Renewable Energy Infrastructure*, <https://www.forbes.com/sites/palashghosh/2021/04/07/norways-sovereign-wealth-fund-makes-first-investment-in-renewable-energy-infrastructure/>

⁵ Özgül (2019) *Sovereign Wealth Funds: The Case of Norway*, https://www.researchgate.net/publication/336605854_Sovereign_Wealth_Funds_the_Case_of_Norway

⁶ Buchholz (2021) *The world's biggest sovereign wealth funds – in one chart*, <https://www.weforum.org/agenda/2021/02/biggest-sovereign-wealth-funds-world-norway-china-money/>

⁷ Norges Bank Investment Management (n.d.) *The history*, <https://www.nbim.no/>

⁸ Özgül (2019) *Sovereign Wealth Funds: The Case of Norway*, https://www.researchgate.net/publication/336605854_Sovereign_Wealth_Funds_the_Case_of_Norway

⁹ Norges Bank Investment Management (n.d.) *How the fund is invested*, <https://www.nbim.no/>

¹⁰ Norwegian Ministry of Finance (2022) *The Norwegian Fiscal Policy Framework*, <https://www.regjeringen.no/en/topics/the-economy/economic-policy/economic-policy/id418083/>

¹¹ Norwegian Petroleum (2022) *The Petroleum Tax System*, <https://www.norskepetroleum.no/en/economy/petroleum-tax/>

¹² Ibid.

¹³ Norges Bank (2019) *How does the fund grow?*, <https://www.nbim.no/en/the-fund/about-the-fund/>

¹⁴ Norges Bank (2019) *About the Fund*, <https://www.nbim.no/en/the-fund/about-the-fund/>

¹⁵ Norwegian Government (2021) *Management mandate for the Government Pension Fund Global*, https://www.regjeringen.no/contentassets/9d68c55c272c41e99f0bf45d24397d8c/gpfg_mandate_2021.08.24.pdf

¹⁶ Council On Ethics (n.d.) *Council on Ethics*, <https://etikkradet.no/en/>

¹⁷ Swann (2021) *'Norwegians would: Sovereign wealth, responsible investment and climate leadership' in The Nordic Edge: Policy Possibilities for Australia*, <https://www.mup.com.au/books/the-nordic-edge-paperback-softback>

¹⁸ ABC (2022) *The rush to renewable energy means a new mining boom*, <https://www.abc.net.au/news/2022-05-09/renewable-energy-may-require-australian-mining-boom/101034914>