

Validation of NORWAY  
Validation Report  
Sustainable Development Strategies Group (SDSG), Independent Validator  
11 April 2017

## 1. BACKGROUND

Norway is a highly-developed European country on the Scandinavian Peninsula. The country has a long coast along the Norwegian Sea and the North Sea, and is bordered by Sweden, Finland, and Russia. Norway consistently ranks highest on the Human Development Index (HDI) based on life expectancy, education, and per capita income indicators.<sup>1</sup> The Organisation for Economic Co-operation and Development (OECD), of which Norway is a member, also ranks Norway first in terms of environmental quality and personal security, and above average with respect to jobs and earnings, education and skills, housing, civil engagement, and health status compared to other countries (with most of the countries in the study being OECD countries).<sup>2</sup> The country ranks as the 6<sup>th</sup> least corrupt on Transparency International's Corruption Perceptions Index,<sup>3</sup> has a perfect rating of 100 on the Freedom House 2016 Freedom in the World ranking, and has "one of the world's most open media environments" according to the Freedom House Freedom of the Press ranking.

Norway's average household income is among the highest in the world at USD 33,393 per year (net-adjusted disposable income per capita), above the OECD average of USD 29,016 per year.<sup>4</sup> However, there remains a gap between the most wealthy and the poorest populations in Norway, with the top 20% of Norway's population (of the total population of 5,265,158)<sup>5</sup> earning almost four times that of the bottom 20%.<sup>6</sup>

Norway is the tenth largest oil exporter and the third largest gas producer in the world. Petroleum activities have been a pillar of the Norwegian economy for over 40 years and represented 15% of the country's Gross Domestic Product in 2015. The Norwegian State benefits from taxation of companies holding licenses on the Norwegian Continental Shelf and through the State's "Direct Financial Interest" in the petroleum industry. The State also holds a 67% majority stake in the largest petroleum company, Statoil.

Norway was the first OECD country to undergo Validation under the EITI Standard. The country has long been an EITI Supporting Country, "committed to good governance in the extractive industries across the world,"<sup>7</sup> and has supported EITI as an international initiative since 2003. The Norwegian Government, through the Minister of International Development, Erik Solheim, first announced Norway's commitment to the EITI on a national level in 2007. Minister Solheim's statement included the following:

*"Norway wants to be at the forefront of the international effort to combat corruption. Our role as a driving force in the EITI is an example of this. Until now, Norway has given the initiative financial and political support. We will now implement the EITI Principles fully. We will ourselves do what*

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<sup>1</sup> United Nations Development Programme (UNDP), Human Development Report 2015: Work for Human Development, [http://hdr.undp.org/sites/default/files/2015\\_human\\_development\\_report\\_1.pdf](http://hdr.undp.org/sites/default/files/2015_human_development_report_1.pdf).

<sup>2</sup> Organisation for Economic Co-operation and Development (OECD), Better Life Index (2017), <http://www.oecdbetterlifeindex.org/countries/norway/>.

<sup>3</sup> Transparency International Corruption Perceptions Index (2016), [http://www.transparency.org/news/feature/corruption\\_perceptions\\_index\\_2016](http://www.transparency.org/news/feature/corruption_perceptions_index_2016).

<sup>4</sup> *Id.*

<sup>5</sup> United States of America Central Intelligence Agency (2017) (July 2016 est.), <https://www.cia.gov/library/publications/the-world-factbook/geos/no.html>.

<sup>6</sup> OECD Better Life Index (2017), *supra* note 2.

<sup>7</sup> EITI Countries, <https://eiti.org/supporters/countries>.

*we ask other countries to do. This will enhance our credibility in the international fight against corruption in the raw materials industries.”*

Norway became an EITI Candidate in February 2009. The country was designated compliant under the EITI Rules in March 2011.

The EITI Board agreed in June 2016 that Norway’s Validation against the 2016 EITI Standard should commence on 1 July 2016. Pursuant to the Validation Guide, the International Secretariat carried out the first phase of validation—initial data collection, stakeholder consultations, and preparation of their initial evaluation of progress against the EITI requirements (the “Initial Assessment”). SDSG was appointed as the independent Validator to evaluate whether the Secretariat’s work was carried out in accordance with the Validation Guide. SDSG’s principal responsibilities as Validator are to review and amend the Initial Assessment, as needed, and to summarize its independent review in this Validation Report for submission to the Board through the Validation Committee.

- [Work Performed by the Independent Validator](#)

The Secretariat’s Initial Assessment was transmitted to SDSG on 19 January 2017. Our Validation Team undertook this phase of the Validation process through: (1) In-depth review and marking up of the EITI Assessment by each team member; (2) Detailed review and comments by the Multi-Stakeholder Specialist of Requirements 1 and 7; (3) Detailed review and comments by the Financial Specialist of Requirements 2 through 6; (4) Overall review and drafting coordination by the Team Leader; (5) Consolidation of detailed comments on the mark up of the Initial Assessment; (6) Review of comments from Norway’s Multi-Stakeholder Group (MSG) and Publish What You Pay Norway (PWYP); and (7) Consolidation of reviews and finalization of this Validation Report.

The SDSG Validation Team received comments from the Norway MSG and PWYP on the International Secretariat’s Initial Assessment on 13 March 2017. The comments specifically discussed Provisions 1.4, 1.5, 4.1, 4.2, 4.9, 7.1, and 7.4, with further comments made throughout the text of the Initial Assessment. We have carefully reviewed all of these comments and taken them into consideration under corresponding Provisions in Part 3 below. Although we reviewed on-going actions and discussion of actions that have occurred or will take place after 1 July 2016, we are not permitted to take these actions into account in our evaluation. We note, however, that the EITI Board has the discretion to consider these actions in its overall evaluation of compliance.

- [Comments on the Limitations of the Validation](#)

Norway is among the 14 countries undergoing the EITI Validation process between the latter part of 2016 and early 2017. Compared to the first half of these countries, relatively more time was provided for the Validation Team to undertake this phase of the review process for Norway. This provided the opportunity for further team discussions and consideration of areas where the Validation Team’s assessment diverged from that of the International Secretariat. Nevertheless, the time provided, in general, and the nature of this phase of the process do not readily accommodate further stakeholder outreach beyond the Secretariat, particularly when no requests for issues to be ‘spot-checked’ were received, and given that the Independent Validator is not expected to duplicate data collection and consultation work completed by the Secretariat. Neither is it permitted to consider activities after 1 July 2016, per express directive of the Board. Notwithstanding these limitations, the Validation Team has carefully reviewed the Secretariat’s Initial Assessment and applicable references to determine Norway’s level of progress against the requirements of the 2016 Standard.

- [Comments on the International Secretariat’s Initial Assessment](#)

The initial data collection, stakeholder consultations, and drafting of the Initial Assessment were generally undertaken by the International Secretariat in accordance with the 2016 Validation Guide. This entailed a desk review of relevant documents from July–October 2016; a country visit by a three-person team from the International Secretariat that conducted stakeholder consultations in Oslo from 21–26 August 2016, with additional meetings in October and November 2016; and production of the Initial Assessment. The in-country consultations focused principally on stakeholders in the capital who are already engaged in the EITI, and outreach beyond them was limited. This is unfortunate, as consultations with civil society and other stakeholders outside the capital would bring great value to this assessment. The Secretariat’s team was identified by name, though it would be helpful to also indicate each member’s level of familiarity or engagement with EITI in Norway to confirm the appropriate balance in perspectives and experience.

## 2. GENERAL COMMENTS

- [Progress in EITI Implementation](#)

The key objective of Norway EITI is reporting as specifically required by the 2009 “Regulation on Reporting and Reconciliation of Cash Flows from Petroleum Activity” that governs the EITI in Norway. Accordingly, action under EITI Norway is very narrowly focused. The Regulation requires licensees operating on the Norway Continental Shelf to report all payments made to the State, while key government agencies must report the revenues received. Norway EITI does not include the mining sector due to its “immaterial contribution” compared to the oil and gas sector.

The first Norway EITI Report covered fiscal year 2008 and was published in 2009. Six Norway EITI Reports followed the 2009 report and none of the reports have found any unresolved discrepancies. There have been no substantive delays in reporting.

Norway’s Multi-Stakeholder Group (MSG), established by Royal Decree on 22 June 2009, is led by the Ministry of Petroleum and Energy (MPE). The current MSG was appointed by the King on 20 June 2014 for a two-year period. It includes two government representatives and their alternatives, three representatives from companies and their alternates, and four representatives from civil society. The term of the current MSG ran out in June 2016, but a new MSG had not been appointed at the time the Initial Assessment was drafted because civil society had been unable to identify new candidates.

EITI Norway’s work plans list very limited activities, but are measurable and time-bound. Activities are oriented toward ensuring the timely publication of reports. The number of activities and the amount of information presented on each activity have progressively diminished over the course of the last seven years.

Aside from posting the EITI Report (produced in Norwegian and English) online and producing paper copies that are, according to Norway’s Annual Progress Report (APR), “made available,” there is no evidence of outreach events undertaken by government or companies to spread awareness of, and facilitate dialogue about, the EITI Report across the country, and no evidence of events by civil society since an open public meeting hosted by PWYP and Transparency International in 2010. The MSG expressly agreed *not* to organize any specific event in relation to the release of the current EITI report. Other than some press releases on Norway EITI’s website, it does not appear that EITI Reports have been actively promoted to any degree since 2010.

- [Impact of EITI Implementation](#)

No impact studies appear to have been undertaken by the MSG. The Secretariat’s Initial Assessment notes evidence of some civil society organizations (CSOs) using EITI data in public debates. Company representatives commented that the EITI process had given them insights to civil society discussions about the sector and anti-corruption advocacy.

All stakeholders consulted by the International Secretariat stated that the EITI “had not really been useful to encourage public debate in Norway” but that this was not so much a challenge as a consequence of the fact that public debate was an integral part of how the sector was governed.

While Norway is acknowledged as a very democratic and economically advanced country, it is important to note that no country is immune from corruption or from mismanagement. EITI Norway could expand EITI’s role and increase value through producing summary reports, increasing outreach activity, building stakeholder capacity, and consulting a wide range of stakeholders in development of its work plan. These and other recommendations are further discussed below.

- The Independent Validator’s Assessment of Compliance

Figure 1 – Validator’s assessment

EITI Requirements		LEVEL OF PROGRESS					Note
		No Progress	Inadequate	Meaningful	Satisfactory	Beyond	
Categories	Requirements						
MSG oversight	Government engagement (#1.1)						
	Industry engagement (#1.2)						
	Civil society engagement (#1.3)				←		1
	MSG governance (#1.4)		←				2
	Work plan (#1.5)						
Licenses and contracts	Legal framework (#2.1)						
	License allocations (#2.2)						
	License register (#2.3)						
	Policy on contract disclosure (#2.4)			←			3
	Beneficial ownership (#2.5)						
	State participation (#2.6)						
Monitoring production	Exploration data (#3.1)						
	Production data (#3.2)						
	Export data (#3.3)	Insufficient Information					4
Revenue collection	Comprehensiveness (#4.1)			←			5
	In-kind revenues (#4.2)						
	Barter agreements (#4.3)						NA
	Transportation revenues (#4.4)			←			6
	SOE transactions (#4.5)						
	Direct subnational payments (#4.6)						
	Disaggregation (#4.7)			←			7
	Data timeliness (#4.8)						
	Data quality (#4.9)						



by consensus may be a *disincentive* to participate as the other stakeholder groups do not support expanding or extending EITI implementation. The EITI website has not been updated since 2014. These realities point to weaknesses in MSG governance. Progress is thus inadequate.

- 1.5 Work Plan. We agree with the International Secretariat's finding that Norway's progress is INADEQUATE in meeting this requirement. In particular, there is little evidence of any efforts to consult key stakeholders on the objectives for implementation, little evidence of activities aimed at addressing any capacity constraints, and no evidence of activities related to increasing the scope of EITI reporting or for implementing the recommendations from EITI reporting. We note here that, according to the MSG's comments on the Initial Assessment, PWYP Norway has organized consultations with civil society on the EITI in 2014 (regarding EITI implementation) and 2015 (regarding Norwegian EITI implementation), and has also included EITI in its capacity building programmes. We have taken this and the MSG's comments regarding linkage between EITI principles and national priorities into account. Nonetheless, we find the gaps identified here indicative of inadequate progress.
- 2.1 Legal Framework and Fiscal Regime. We agree with the International Secretariat's finding that Norway has made SATISFACTORY progress in meeting this requirement. We note, however, that the Initial Assessment does not state whether the EITI Report discloses the level of fiscal devolution, and thus, that the Initial Assessment is incomplete.
- 2.2 License Allocations. We agree with the International Secretariat's finding that Norway's progress in meeting this requirement is BEYOND SATISFACTORY. However, the EITI Report should include an affirmative statement that there were no deviations from the required allocation procedures.
- 2.3 Register of Licenses. We agree with the International Secretariat's finding that Norway's progress in meeting this requirement is BEYOND SATISFACTORY. However, the Initial Assessment does not state whether the registry or the EITI Report discloses the dates of application for each license or the coordinates of each applicable licensing area (or the alternative location information required by the Standard), and to that extent, the Initial Assessment is incomplete.
- 2.4 Contract Disclosures. We disagree with the International Secretariat's assessment of satisfactory progress and find instead that Norway has made MEANINGFUL progress in meeting this requirement. The Standard requires that the EITI Report document any reforms that are planned or are underway, and the Initial Assessment finds that this requirement was not met.
- 2.5 Beneficial Ownership (BO). Disclosure under this provision is NOT YET APPLICABLE.
- 2.6 State Participation in EI. We agree with the International Secretariat's finding that Norway's progress in meeting this requirement is BEYOND SATISFACTORY.
- 3.1 Exploration. We agree with the International Secretariat's finding that Norway's progress in meeting this requirement is BEYOND SATISFACTORY.
- 3.2 Production Data. We agree with the International Secretariat's finding that Norway has made SATISFACTORY progress in meeting this requirement.
- 3.3 Export Data. We disagree with the International Secretariat's assessment of satisfactory progress and find instead that the Initial Assessment does not provide the information necessary to reach a conclusion on this requirement. Specifically, the Initial Assessment does not refer to 2014 data and does not state whether the 2014 data is disaggregated by commodity and by state/region.

- 4.1 Comprehensiveness. We disagree with the International Secretariat's finding that Norway has made meaningful progress in meeting this requirement and instead find that progress is SATISFACTORY. This finding is based on the MSG's comments to the International Secretariat's Initial Assessment, which provide evidence of discussions and determinations by the MSG as to which of the revenue streams are material. We note, however, that the use of standard Terms of Reference by Norway would facilitate a clear (and more comprehensive) definition of materiality.
- 4.2 In-Kind Revenues. We agree with the International Secretariat's finding that Norway has made MEANINGFUL progress in meeting this requirement. We have reviewed the MSG's comments on this Provision, but the comments did not disturb our findings. Provision 4.2 requires that sales of state production be "disaggregated by individual buying company and to levels commensurate with the reporting of other payments and revenue streams." The reported data here is not disaggregated by buying company. Accordingly, progress is meaningful.
- 4.3 Infrastructure Provisions and Barter Arrangements. We agree with the International Secretariat's finding that this provision is currently NOT APPLICABLE in Norway.
- 4.4 Transportation Revenues. We disagree with the International Secretariat's assessment of satisfactory progress and find instead that Norway has made MEANINGFUL progress in meeting this requirement. The MSG has not determined whether transportation revenues are material or set a reporting threshold for transportation revenues.
- 4.5 Transactions Related to SOEs. We agree with the International Secretariat's finding that Norway has made SATISFACTORY progress in meeting this requirement.
- 4.6 Subnational Payments. We agree with the International Secretariat's finding that Norway has made SATISFACTORY progress in meeting this requirement.
- 4.7 Level of Disaggregation. We disagree with the International Secretariat's assessment of satisfactory progress and find instead that Norway has made MEANINGFUL progress in meeting this requirement. As the Initial Assessment notes, the data is not disaggregated by government entity. In addition, it does not appear that the MSG and the EITI Report discussed project-level disaggregation nor pertinent United States Securities and Exchange Commission (SEC) or European Union guidelines.
- 4.8 Data timeliness. We agree with the International Secretariat's finding that Norway's progress in meeting this requirement is BEYOND SATISFACTORY.
- 4.9 Data Quality and Assurance. We agree with the International Secretariat's finding that Norway has made MEANINGFUL progress in meeting this requirement. We reviewed the MSG's comments on this Provision, but the comments did not change this finding. We do agree, however, that the wording of this Provision in the EITI Standard should be further clarified to align with international standards regarding engagements to perform agreed upon procedures.
- 5.1 Distribution of Extractive Industry Revenues. We agree with the International Secretariat's finding that Norway's progress in meeting this requirement is BEYOND SATISFACTORY.
- 5.2 Sub-national Transfers. We agree with the International Secretariat's finding that this provision is currently NOT APPLICABLE in Norway. The EITI Report should nevertheless discuss the requirement and not simply imply that it is not applicable.

- 5.3 Revenue management and expenditures. Disclosure under this requirement is encouraged and is thus not considered in the overall assessment of compliance.
- 6.1.a. Social Expenditures by Extractive Companies. We agree with the International Secretariat's finding that this provision is currently NOT APPLICABLE in Norway.
- 6.1.b. Discretionary Social Expenditures. Disclosure under this requirement is encouraged and is thus not considered in the overall assessment of compliance.
- 6.2. Quasi-fiscal expenditures. We agree with the International Secretariat's finding that this provision is currently NOT APPLICABLE in Norway.
- 6.3. Contribution of the Extractive Sector to the Economy. We agree with the International Secretariat's finding that Norway's progress in meeting this requirement is BEYOND SATISFACTORY.
- 7.1. Public Debate. We disagree that Norway has made meaningful progress and instead find that progress is INADEQUATE. Aside from posting the EITI Report (produced in Norwegian and English) online and producing paper copies that are, according to the APR, "made available," there is no evidence of outreach events undertaken by government or companies to spread awareness of, and facilitate dialogue about, the EITI Report across the country, and there have been few outreach events by civil society since an event in 2010. We do note, however, that, according to the MSG's comments on the Initial Assessment, PWYP Norway organized consultations with civil society in 2014 and 2015, which likely contributed to dialogue about the EITI in Norway. However, the MSG expressly agreed *not* to organize any specific event in relation to the release of the most recent EITI report. It does not appear that the EITI Report has been actively promoted by the MSG since 2010. We reviewed the MSG's comments on this Provision, which confirm that the MSG has discussed but decided not to undertake public outreach activities; the MSG does not see a role to fill on this point. Progress is inadequate.
- 7.2. Data Accessibility. Disclosure under this requirement is encouraged and is thus not considered in the overall assessment of compliance. We agree with the International Secretariat that it would be very helpful for the MSG to produce and make use of summary reports, and use the EITI process to build capacity among stakeholders and increase relevance of EITI implementation in Norway.
- 7.3. Discrepancies and Recommendations from EITI Reports. We agree that Norway has made SATISFACTORY progress. We also agree with the International Secretariat that it would be helpful for the MSG to set up a matrix showing which recommendations have been successfully addressed and which remain pending to facilitate future follow up.
- 7.4. Outcomes and Impact of EITI Implementation on Natural Resource Governance. We agree that Norway has made MEANINGFUL progress. We also agree that the MSG should clarify a procedure for mainstreaming disclosures and address identified gaps in implementing this provision, including gaps that result from inconsistencies or duplication in the MSG structure and Norway's model of natural resource governance. Our review of the MSG's comments on this Provision support this recommendation and our finding of meaningful progress.

#### 4. RECOMMENDATIONS



The following are the Secretariat's overarching recommendations for improving EITI implementation in Norway, with the Validation Team's modifications and supplements in italics.

- 4.1 As a matter of urgency, the MSG is encouraged to make progress on implementing the necessary steps to seek EITI Board approval to use the EITI's agreed upon procedure for mainstreamed disclosures as a way of maintaining stakeholder engagement in the future.
- 4.2 The role of the MSG and EITI work plans in a Norwegian context should be raised by the MSG to the attention of the EITI Board when it seeks its approval to use the EITI's agreed-upon procedure for mainstreamed disclosures, as it will continue to have an impact on Norway's ability to comply with requirements 1.4 and 1.5.
- 4.3 The MSG should agree a process to ensure greater accountability of MSG representatives to the constituencies. In particular, the civil society constituency should be encouraged to develop and agree on constituency guidelines that effectively set out the process by which representatives in the MSG will be selected and held accountable. The MSG will need to make progress on a new work plan and link its objectives to national priorities under the wider mandate of the EITI Standard. In developing the work plan, *it is recommended that* the MSG consult a wide range of stakeholders.
- 4.4 The MSG should ensure that the TOR for the MSG are consistently followed so that information that should be available online is regularly uploaded and the Norway EITI website is regularly updated.
- 4.5 *It is recommended that* the MSG ensure that EITI reporting includes an overview or reference to the latest information regarding license bidding rounds on the *Norwegian Petroleum Directorate (NPD)* website, and reference to information on transferred licenses in the Petroleum Register.
- 4.6 *It is recommended that* the MSG ensure that any relevant reforms underway related to the legal and fiscal frameworks governing the sector are described in future reports.
- 4.7 In preparation for enforcement of Requirement 2.5 of the 2016 EITI Standard, *it is recommended that* the MSG consider clarifying government policy on beneficial ownership disclosure, actual disclosure practices, and any planned or ongoing reforms. *It is recommended that* the MSG use the beneficial ownership roadmap to make further reference to available ownership information, communicate the government's ongoing work to establish a public ownership register as well as implications of this for oil and gas companies operating in the country, and track progress made by the government.
- 4.8 Regarding information on the participation of the State in the extractive sector, *it is recommended that* the MSG provide more direct links and clear references to the available information on such websites in the EITI Report.
- 4.9 *It is recommended that* the MSG ensure that information on production values are provided by commodity in EITI reporting and on the Norwegian Petroleum website.
- 4.10 The MSG should decide on a definition of materiality, consider reviewing the revenue streams to be included in the reconciliation, and discuss whether some of the smaller revenue streams could be unilaterally disclosed by the government to avoid minor discrepancies, such as those related to interest on delayed payments. This could involve revising the EITI regulation or the EITI reporting guidelines. *It is recommended that* the MSG review the contribution of the mining sector and whether to include revenue or non-revenue information on the sector in EITI reporting.

- 4.11 *It is recommended that the MSG consider working with Statoil and other relevant government agencies on disclosing aggregate figures of the sales from the state's share of petroleum and to levels commensurate with the reporting of other payments and revenue streams (in accordance with Provisions 4.2 and 4.7). Reporting could also break down disclosures by the type of product, price, market, and sale volume. The MSG is further encouraged to *require* the Independent Administrator (IA) to *reconcile* the volumes sold and revenues received by including the buying companies in the reporting process.*
- 4.12 In preparing its next EITI Report, the MSG should ensure that reconciled data is disaggregated not only by individual company and revenue stream but also by receiving government entity, either in the EITI Report or on the Norway EITI website.
- 4.13 The MSG and the IA are required to agree a TOR for the EITI Report based on the Standard TOR for the IA and the agreed upon procedure for EITI Reports endorsed by the EITI Board, in accordance with Requirement 4.9b(iii). Alternatively, the MSG may seek Board approval to mainstream EITI implementation in accordance with the "Agreed upon procedures for mainstreamed disclosure," available from the International Secretariat.
- 4.14 *It is recommended that the MSG consider exploring whether to include an overview of voluntary social payments or to include such payments in the payments to be disclosed in the report.*
- 4.15 In seeking the EITI Board's approval to use the EITI's agreed upon procedure for mainstreamed disclosures, the MSG should raise the issue of applicability of Requirement 7.4 in the Norwegian context. In the meantime, future APRs should list each recommendation and the corresponding activities that have been undertaken to address the recommendations and the level of progress in implementing each recommendation in accordance with Requirement 7.4a(iii). Where the government or the MSG has decided not to implement a recommendation, the MSG should document the rationale in the APR. *It is recommended that the MSG set up a matrix showing which recommendations have been successfully addressed and which remain pending so that it is easier to follow these up in the future (Requirement 7.3).* In accordance with Requirement 7.4a(v), a narrative account of efforts to strengthen the impact of EITI implementation on natural resource governance should be included in APRs, including any actions to extend the detail and scope of EITI reporting or to increase engagement with stakeholders. Finally, *it is recommended that the MSG ensure that the 2015 APR is available online.*

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