
State Involvement in Production of Goods and Services - Development and Company Formation

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Preface

This report is part of an OECD/PUMA study on public enterprises. The OECD/PUMA project deals with the reform of public sector enterprises through commercialisation, corporatisation and privatisation and have country chapters on Australia, the Netherlands, Norway, Spain, Switzerland and the United Kingdom.

The present report is the country chapter on Norway. It gives an overview of public ownership and main public enterprises. It deals with the historical background for state involvement and different forms of affiliation for public enterprises. It also deals with reform strategies and the relationship between political control and commercial operations.

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1 Public enterprises and companies

Total government ownership in Norwegian commerce and industry is fairly extensive. Government holdings in companies listed on the Oslo Stock Exchange average about 20 per cent.

Norwegian public enterprises are owned in part by the Norwegian state, in part by Norwegian municipalities. The state is the dominant owner. Measured in persons employed, the state accounts for about 82 per cent of publicly owned companies. Public enterprises span a wide range of functions and sectors, and have historical roots going back to the middle of the last century and the development of infrastructure such as roads, railway and telephony. Municipally owned undertakings operate mainly in the field of production and distribution of electrical power and scheduled road transport.

This report deals with the state sector's involvement in production of goods and services.

1.1 Background and historical roots

The rationale for state involvement readily falls into four main parts: development of infrastructure and infrastructure-based service provision, national control and use of resources, development of the welfare state and laying the basis for, and development of, commerce and industry. These four items form two main groups:

- * *infrastructure-based service provision and national resource use*
- * *development of the welfare state and of industry and commerce.*

Enterprises in the area infrastructure-based service provision and national resource use can trace their origin back to the establishment of the Telegraph Directorate in 1855. The following years saw the establishment of further institutions such as the office of director general of the Postal Services Administration in 1857, the Directorate of Public Roads in 1864 and the appointment of a director general of railway services in 1865. The first moves to regulate establishments of industrial and commercial undertakings came with the introduction of the concession laws in 1906. The concession laws were intended to safeguard Norwegian interests in the exploitation of waterfalls for production of electricity. This was followed by direct state participation in the development of power stations, the first of which went into operation in 1920. The state involvement in industry after World War II, particularly the establishment of the Norwegian iron and steel industry (AS Norsk Jernverk in 1946), was motivated partly by the same considerations. The establishment of the state oil company, Den norske stats oljeselskap (Statoil AS), in 1972 marks a highpoint in this area.

Somewhat later, but in parallel with the establishment of infrastructure and of a basis for national resource use, a number of initiatives were taken which can be grouped under the term *development of the welfare state and of industry and commerce*. These were initiated through state regulatory measures at the end of the last century. However, the establishment of institutions and enterprises proper only got under way in the interwar period. The Norwegian National Grain Administration (Statens Kornforretning) was established after a long debate in 1927, and the state wine and spirits monopoly (AS Vinmonpolet), was set up through special legislation in 1932. This trend continued in the period after World War II with establishments of enterprises such as the state-run housing bank (Den Norske Stats Husbank) in 1946, the Postal Savings Bank (Postsparebanken) in 1948 and the pharmaceutical wholesaler (Norsk Medisinaldepot) in 1953.

The 1940s and 1950s saw the establishment of several government-owned industrial enterprises. These establishments originated partly in plans launched by Prime Minister Johan Nygaardsvold's Labour Party administration in 1935, partly in the state acquisition of German assets in several industrial companies after World War II, and partly through the reorganisation of Ministry of Defence arms manufacturers into independent companies.

In addition to the more politically motivated establishments, a group of government-owned enterprises have been established to meet the needs for *internal service production* in a growing state sector. Pertinent examples are the state catering enterprise (Statens kantiner) and Statsbygg (formerly the Directorate of Public Construction and Property).

2 Government-owned enterprises

This chapter gives an overview of larger-scale government-owned enterprises and companies. Government-owned enterprises are organised either as *administrative enterprises, government-owned companies, government limited companies or hybrid companies established by law*.

In addition to the above, a number of government-owned enterprises are organised as foundations or administrative agencies with designated powers. These were set up in cases where the arguments for drawing a distinction with the ordinary central administration were not of a commercial or market-related nature, but where it was important to signal professional independence. These organisational models have mainly been used in institutions in the fields of research and culture.

Government ownership and performance of the owner-role in such enterprises is in the hands of the various sectoral ministries. The links between the enterprises and the ministries originated in the sectoral policy objectives the enterprises were intended to promote. In this model the respective ministers carry responsibility and discharge all aspects of the ownership role vis-à-vis the enterprises, i.e. the

general meeting at government limited companies and the equivalent at government-owned enterprises.

The Office of the Auditor General, which is the Storting's controlling agency for the administration, oversees that the minister exercises proper control over public sector companies.

Before presenting an overview of companies, we will take a closer look at the legal, economic and management characteristics of the various types of business organisation in the state sector, i.e. *government administrative enterprises, government limited companies, government-owned companies and hybrid companies*.

2.1 Features of the various types of business organisation

2.1.1 Government administrative enterprises

The government administrative enterprises form part of the state as a legal person and are included in the government budget. The Storting fixes the government administrative enterprises' budgets and powers, and thereby exercises general control of these undertakings. The government administrative enterprises differ from the ordinary public administrative agencies in that exceptions are made for central parts of the rules pursuant to the appropriation regulations. The main exception is that budgeting is on a general net basis without specification of items on the revenue and expenditure side. This enables government administrative enterprises to deviate from anticipated revenues and expenditures so long as the operating result is not adversely affected. This right is limited in several instances by the Storting's power to make decisions regarding charges and prices, quality and contribution margin ratios that apply to services and products in the fiscal year. Several undertakings have the opportunity to build up so-called adjustment funds to which allocations are made for future use.

Investments for government administrative enterprises are budgeted on a gross basis, the main rule being that this principle cannot be waived for example by transferring funds between items or from the expenditure side in the event of improved results. Capital costs are expensed by having investments capitalised and depreciated according to special rules, and are therefore an exception to the cash flow accounting which applies elsewhere in the central administration. Borrowing requirements are met through Treasury loans. Employees are civil servants, but government administrative enterprises have extended powers in the salary and personnel sphere and when it comes to buildings and property management.

Each government administrative enterprise is headed by a director, but the government and the Storting have a general power of instruction which if necessary can be used to enforce compliance with the Storting's guidelines. The Office of the Auditor General oversees that appropriations are disposed of in

conformity with applicable guidelines and with the Storting's premises for the appropriation. Government administrative enterprises are moreover subject to legal regulations pursuant to the Public Administration Act, the Freedom of Information Act and the Civil Service Act. The general rules for government financial administration, personnel administration and procurement apply. The extended powers and exceptions provided for in regard to financial administration are intended to ensure purposeful and cost-effective operation within given framework conditions. Historically speaking it is the major service-producing transport and communications enterprises, i.e. the Postal Services Administration, Norwegian Telecom, and the Norwegian State Railways, that have been organised as government administrative enterprises.

2.1.2 Government limited companies

Government limited companies are the preferred form of business organisation in commercial and industrial activity in which no particular sectoral policy considerations apply, or where the enterprises operate in a competitively exposed market and are given this organisational form in the interests of business efficiency and freedom of action. Control by the state as the owner of these enterprises is on a general level, and usually linked to the enterprise's sphere of activity, financial return and dividend, and the constitution and composition of the enterprise's governing bodies.

The Companies Act applies to all these companies with a few exceptions. These exceptions give the government (and therefore the Storting) the right to re-examine the corporate assembly's decisions regarding major investments and reorganisation of operations, and entitle the Office of the Auditor General to request the information it deems necessary for control purposes from the board of directors, managing director and company auditor. The ministry/minister concerned is the company's general meeting. In government limited companies it is the general meeting and not, as is the case with other limited companies, the corporate assembly that appoints the company board. The state has limited responsibility for the activity of government limited companies and its financial liability is limited to the subscribed share capital. In other words they can be put into compulsory liquidation.

2.1.3 Government-owned companies

This form of business organisation was established under an act that came into force in 1992. The intention was to establish a form of organisation for government business activity that could promote both effective business operation and sectoral policy considerations. The act was passed in response to the needs of a number of the then government administrative enterprises for greater business freedom. Government-owned companies are legal entities in their own right and their capital and income are not part of the Treasury. Government-owned companies may only be wholly owned by the state. They are liable for their debts, but in contrast to the government limited companies the state carries extended financial liability such that in the event that a government-

owned enterprise is wound up the state will be liable for its debts. The law sets limits to such enterprises' borrowings. The government-owned companies' paramount body is the annual meeting (equivalent to a limited company's general meeting), at which the ministry exercises proprietary authority. The day-to-day management comprises the board and managing director whose freedom of action resembles that of their counterparts in government limited companies. The enterprises also have a corporate assembly, but with limited liability compared with the limited companies. The Office of the Auditor General supervises these companies in the same way as in the case of government limited companies.

2.1.4 Hybrid companies

Hybrid companies are a composite group whose common factor is that they are established under special legislation for each enterprise. This form of business organisation arose initially with the establishment of the state wines and spirits monopoly, Vinmonopolet, to promote specific social policy objectives for the sale of alcoholic beverages. Its hybrid form draws features both from the government-owned company model and the government limited company model. Hybrid companies are legal entities in their own right. Most hybrid companies are established in areas where they are essentially in a monopoly situation. After the inception of the government-owned company model in 1992 it was thought that the hybrid companies could be phased out to simplify the state business organisation structure, but the balancing of various interests has led to its retention and indeed extension with the conversion in 1996 of the two major government administrative enterprises Postverket (the Postal Services Administration) and Norges Statsbaner (Norwegian State Railways, NSB) into hybrid companies named Posten Norge BA (Norway Post) and NSB BA. Postbanken also acquired this form (see Chapter 3).

2.2 Enterprise overview

The following overview is categorised with a basis in the general rationale for state involvement referred to in Chapter 1. *Infrastructure-based service provision and national resource use, development of the welfare state and of industry and commerce, and internal service provision.*

All in all there are about 40 public enterprises and companies in the categories government administrative enterprise, government-owned company, government limited company and hybrid company. The overview below deals with government administrative enterprises, government-owned companies, and wholly-owned government limited companies with more than 100 employees. Partly-owned limited companies are dealt with collectively in section 2.4.1. The subsidiaries of these companies are not dealt with systematically.

The central bank (Norges Bank), the state housing bank (Den Norske Stats Husbank), the state bank for agriculture (Statens Landbruksbank), the Norwegian pools organisation (Norsk Tipping AS), Postbanken and the State

Loan Fund for Education (Statens Lånekasse for Utdanning) enjoy varying degrees of autonomy in relation to the government authorities, but each was established under special legislation. These enterprises receive no further mention here.

All figures are given in millions of kroner and are based on the enterprises' annual reports for 1996 unless otherwise stated. The column "Owner ministry" shows which ministry the enterprise comes under. The abbreviations are explained at the end of the article. The column "Form of bus. org." shows the form of business organisation. "AS" stands for government limited company, "SS" for hybrid company, "FB" for government administrative enterprise and "SF" for government-owned company.

2.2.1 Infrastructure-based service provision and national resource use

Enterprise	Owner-ministry	Form of bus. org.	No. of employees	Turnover	Result for the year	Dividend to the state ¹
Telenor AS	SD	AS	19 221	22 170	2 354	450
Posten Norge BA	SD	SS	29 407	8 716	28,3	12
NSB BA ²	SD	SS	9 070	6 066	194	0
Civil Aviation Administration	SD	FB	2 234	2 788	929	21
NRK AS	KUF	AS	3 407	2 551	(161)	0
Statoil AS	OED	AS	15 171	124 017	5 281	1 850
Statkraft SF	OED	SF	1 037	7 117	455	0
Statnett SF	OED	SF	931	6 644	250	163
Statskog SF	LD	SF	382	225	19,2	6,5

Telenor AS is the name of the former government administrative enterprise Norwegian Telecom (Televerket). Regulation of the telecommunications sector goes back to 1881 when the so-called Monopolies Act gave the state the exclusive right to convey messages by means of telegraph lines and similar systems. In 1889 Telenor's monopoly was extended to include all telephony over and above less profitable lines over long distances. The state thereby acquired the exclusive right to buy up the private telephone companies. The acquisitions

¹ This table shows net transfers to the state from each enterprise in thousands of kroner.

Figures in parentheses denote a net contribution from the state to the enterprise.

² NSB BA was established as a separate company on 31 November 1996. The accounts figures are based on pro forma profit and loss accounts for 1996.

proceeded over a long period and the last private company was taken over in 1974.

Deregulation of the telecommunications sector started in the mid-1980s. The first step was the separation of the administrative tasks of regulation and control into the newly established Norwegian Telecommunications Authority (Statens Teleforvaltning) in 1987. The market for user equipment was deregulated in 1988 and Norwegian Telecom (Televerket), which at that time was an government administrative enterprise, spun off its operations in this area into a separate wholly-owned subsidiary, TBK AS. In 1993 the way was opened for competition in the data communications field and for resale of capacity on leased lines. In addition competition, regulated by licence, was permitted on the GSM mobile telephone network. On 1 January 1998 the last monopoly area will be freed for competition in ordinary telephony services and establishment and operation of fixed networks.

Telenor's mission is to operate telecommunications services, and moreover to carry out national tasks such as ensuring effective and good telecommunications to all households and firms on equal terms at the lowest possible price. In addition Telenor attends to specially prescribed social tasks: in connection with overall defence preparedness in crisis situations, coastal radio, text telephone services for the deaf or hard-of-hearing and telegram and telex services to foreign countries and ships. Since Telenor AS was formed these functions have been carried out with no special compensation from the state. Financing has been deemed to be provided through the monopoly profits achieved in the remaining exclusive-rights areas. When these disappear in 1998 the question of payment for services provided will be taken up.

Although Telenor AS is organised as a limited company, its articles of association decree that the board shall put all matters deemed to involve fundamental principles or to be of major political or social significance before the general meeting (i.e. the Ministry of Transport and Communications). The articles also stipulate that the state shall own all shares in Telenor. This is justified in terms of Telenor's important social and economic mission.

Norway Post (Posten Norge BA), was converted from an administrative undertaking to a hybrid company as from 1 November 1996. Throughout its history its predecessor, the Postal Services Administration (Postverket), had been linked to the state in several different ways. Up to 1926 it was in some periods part of a ministry and in other periods turned into a separate undertaking. In 1926 it was revamped and organised as a separate directorate (administrative agency) with its own board.

Step-by-step, postal services have graduated from a monopoly situation to exposure to competition, both as a result of deregulation of specific service areas and product groups and as a result of technological developments and new electronic and digital media. Today Norway Post competes with other players in most market areas, its monopoly being confined to letters under 350 grammes. In this service area Norway Post is required to maintain nationwide services of uniform quality and at uniform charges. Compensation for imposed functions is

in the form of government subsidies. The compensation model incorporates several factors and a stipulated monopoly profit is deducted. As from 1997 separate accounts will be presented for the monopoly area. This scheme entailing government purchases of postal services was introduced in 1993. In the first year purchases came to NOK 310 million. In the last three years they have totalled NOK 215 million, i.e. just over 2 per cent of Norway Post's overall operating revenues in 1996.

A new watchdog (Posttilsynet), to monitor and oversee operators in the postal services market, has been set up in connection with the already existing Telecommunications Authority (Teletilsynet).

Norwegian State Railways (NSB BA) was converted from an government administrative enterprise into a hybrid company on 31 November 1996. Norwegian railway history goes back to 1854. A number of railway lines were built by limited companies before the turn of the century. In 1883 an administrative scheme was put in place which brought all lines under a central board. This marked the start of the state administration of rail services in Norway.

Preparations for reorganisation had been under way in NSB for several years ahead of the latest reorganisation in 1996. In 1990 the physical railway track was separated from train operations with the establishment of a financial management system which entailed a distinction between the two entities in terms of planning, budgets and accounts. The purpose was to establish a passenger and freight services entity for which NSB had profit responsibility, and to make visible the state's responsibility for developing and maintaining track and infrastructure. Track was dealt with according to the same principles as the roads sector and the Storting stipulated the extent and standards in this respect.

Since the establishment of the hybrid company the Norwegian National Rail Administration (responsible for track operation) has been detached from the passenger and freight services company, NSB BA. However, there is a very close interplay between the two bodies which, among other things, have the same managing director and the same board. In 1996 the Norwegian Railway Inspectorate was established to perform governmental functions such as granting operating permits and supervising all railway operations, including private services. The Railway Inspectorate is an administrative agency with its own director directly under the Ministry of Transport and Communications, but shares joint premises with the Norwegian National Rail Administration.

With the separation, in 1990, of the National Rail Administration from the passenger and freight services company NSB BA, state subsidies to NSB have been split between track operations, for which the state is responsible, and passenger and freight services which are the responsibility of NSB BA. There is a fundamental distinction between freight traffic, which has to break even, and passenger services where the state, based on a further distinction between various transport areas and trains, purchases transport services. This policy is being carried forward to the new NSB BA which pays a levy for track use to the Norwegian National Rail Administration.

Transfers over the government budget to NSB's track operations have steadily increased from NOK 2,363 million in 1992 to NOK 2,987 million in 1996. Purchases of transport services from NSB have in the same period diminished from NOK 1,238 million to NOK 900 million³. Public sector purchases of transport services came to 17.7 per cent of overall operating revenues for NSB BA in 1996 (passenger and freight services).

In recent years NSB has acquired several undertakings in the transport area which are now organised under a wholly-owned subsidiary, NSB Biltrafikk (a bus/coach company). NSB Reisebyrå AS (travel agent) and Gardemobanen AS (operating rail services to the new national airport) are also organised as separate subsidiaries.

The mission of the **Civil Aviation Administration** (Luftfartsverket) is to strengthen the competitiveness of civil aviation. Its functions are threefold: It owns and operates the country's 18 public airports, 11 of them in conjunction with the armed forces. In 1996 negotiations started on acquisition and operation of 26 non-state regional airports in the short-runway network. The Civil Aviation Administration operates the air safety service in Norway and exercises authority through the Aeronautical Inspection Department, which is an independent entity within the Administration. The Civil Aviation Administration is self-financing. Three-quarters of its revenues derive from traffic revenues which are set by the Storting. The rest are market- and property-based revenues. The Civil Aviation Administration has three wholly-owned subsidiaries, two of which are organised as limited companies.

The **Norwegian Broadcasting Corporation (NRK)** was established as a state-run general broadcaster in 1933. It was organised as an government administrative enterprise and remained so until 1988. In 1988 NRK was turned into a foundation, and retained this status until 1996. After the gradual phasing-out of NRK's radio and television monopoly from 1984 onwards, several new private radio and TV companies have been established. Where television is concerned, NRK's market share was 44 per cent in 1996, for radio 61 per cent.

The conversion from foundation to limited company in 1996 was intended to give NRK greater freedom of action to bring about a more efficient structure focusing on NRK's core task, i.e. programme production. The company is undergoing a process of change; so far the transmission network has been spun off into a separate company, Norkring AS, which is owned together with Telenor AS.

NRK's main revenue source is the licence fee. In 1993 it accounted for 93 per cent of overall operating revenues.

³ Central government accounts for the respective years.

Statoil AS (the state oil company) was founded in 1972 to safeguard state interests as owner and operator in the extraction and production of oil and gas on the Norwegian continental shelf. The company's mission - alone, in collaboration with or through other parties - is to search for, extract, transport, process and market petroleum and derivative products. Statoil has gradually acquired a dominant position in Norwegian oil and gas production. Its operations span a number of activities. The company is responsible for safeguarding state interests linked to direct public economic involvement in the partnership responsible for surveying and exploration, development, production and transport of petroleum on the Norwegian continental shelf. The partnership currently operates in 24 countries apart from Norway. It comprises 12 wholly-owned and two partly-owned subsidiaries, and in terms of turnover Statoil is Norway's decidedly biggest company.

In the interests of business freedom and flexibility the company was organised as a government limited company. In order to underline the company's national significance, its articles of association decree that all matters deemed to involve fundamental principles or to be of major political or social significance must be put before the general meeting.

Statkraft (government-owned electricity generator) and **Statnett** (government-owned national grid operator) were formed after the conversion and split-up of the government administrative enterprise Statkraft. The background was the coming into force of the new Energy Act on 1 January 1991. With this reform the electricity generators' exclusive rights to deliver electricity within their respective concession areas ceased. In order to establish a market it was necessary to separate the distribution network from the generators in the government administrative enterprise.

Statnett is responsible for rational operation and development of the transmission system. The company plans, builds, owns and operates transmission networks and connections to other countries. The company has two wholly-owned subsidiaries organised as limited companies.

Statkraft's mission is to plan, build and operate generating plants, buy and sell electricity as well as engage in naturally related activities. The company now has three wholly-owned subsidiaries. In addition it acquired shareholdings in the Swedish company Sydkraft AB.

Electricity production in Norway is essentially in public hands. Apart from Statkraft SF, which accounts for about 30 per cent of the output, municipally owned power stations account for 55 per cent. Thus only 15 per cent of Norwegian electricity production is in private hands.

Statskog (formerly the Directorate for State Forests and Land) was formed when the Directorate was turned into a government-owned company in 1993. The company's mission - alone or in collaboration with others - is to manage, operate and develop government-owned forest and highland properties and associated resources as well as other naturally related activities. Statskog's

history goes back to 1860 when the State Forest Authority was established to oversee state properties. Up to 1957 this function was assigned to a division within the Ministry of Agriculture. In 1957 the Directorate for State Forests and Land was established as a separate administrative agency. One of the aims of the Directorate was to ensure economic operation of forest properties. Statsskog is the country's biggest landowner and its properties cover about one-third of Norway's land area. The company has seven wholly- and partly-owned subsidiaries.

2.2.2 Welfare state and commercial and industrial development

Enterprise	Owner-ministry	Form of bus. org.	No. of employees	Turnover	Result for the year	Dividend to the state
AS Vinmonopolet	SHD	SS	1 119	5 122	77,5	27,1
Arcus AS	NHD	AS	685	4 423 ⁴	27	16
Store Norske Spitsbergen Kullkompani AS	NHD	AS	266	125	(25,3)	(133,8)
Svalbard Samfunnsdrift AS	NHD	AS	130	65	1,2	(61,8)
A/S Olivin	NHD	AS	232	797	64	16
Norsk Medisinaldepot AS	SHD	AS	507	4 851	(29,6)	25
Norwegian Nat. Grain Administration	LD	FB	100	2 465	0	
Statkorn Holding AS	LD	AS	582	3 724	417	283

AS Vinmonopol was established by special legislation in 1932 and up to 1996 was a government-owned monopoly for the production, import and sale of wine and spirits. Social and alcohol policy considerations were behind the establishment of Vinmonopolet. Upon its establishment in 1932 it had already been a privately owned monopoly for ten years operating under government licence. As a result of provisions in the EEA Agreement changes were made in 1996 which restricted AS Vinmonopol's monopoly to retail sales.

⁴ Denotes gross sales revenues. Of this sum NOK 3,167m refers to alcohol and packaging levies.

Arcus AS encompasses the import and production units of the earlier AS Vinmonopolet.

The mining company **Store Norske Spitsbergen Kulkompani AS** is located in the Svalbard Archipelago, north west of the Norwegian mainland. The company's history goes back to 1916, i.e. before Norway formally established its "sovereign right" to the archipelago through the Svalbard Treaty in 1920. The company was initially in private hands, but was taken over by the state in the 1970s after it was concluded that it was not possible to extract coal on a commercial basis. The acquisition and continuation of the colliery must be seen as part of an overall policy of safeguarding Norwegian interests in Svalbard. The same applies to Svalbard samfunnsdrift AS, which performs functions related to local administration.

The mining company **AS Olivin** was established in 1948 after deposits of the mineral olivine had been identified by the national raw materials laboratory and after industrial companies had declined to become involved owing to the commercial risk represented by what was then a relatively unknown material.

Norsk Medisinaldepot AS (government-owned pharmaceuticals wholesaler) was established by special legislation in 1957 and was given the exclusive right to sell pharmaceuticals wholesale to the Norwegian market. The background was the Storting's wish to ensure uniform low prices nationwide and reliable supplies and adequate preparedness in the event of war or other crises. Concern over the supply issue has a history going back to the Napoleonic Wars, but up to the establishment of Norsk Medisinaldepot it was resolved with the aid of privately owned companies operating under government licence. Norsk Medisinaldepot was turned into a limited company in 1993. The company's mission is to trade in pharmaceuticals, drugs and other naturally related products and activities. 1996 was the first year of competition on the wholesaler side for distribution of pharmaceuticals. By the end of the year NMD had a market share of 75 per cent. When the Revised National Budget was considered in the spring of 1997, a majority of the Storting came out in favour of partial privatisation of the company. This question is now being dealt with by the owner-ministry.

Statens kornforretning (Norwegian National Grain Administration) and Statkorn holding AS were established in 1994 by splitting up the then national grain administration into a government administrative enterprise (Statens Kornforretning) and a government limited company (Statkorn holding AS). The reorganisation was carried through in order to bring the 66 year old grain monopoly into line with the WTO/GATT Agreement.

The background to the earlier national grain administration is to be found in the Act of 1928 on the Country's Grain Supply. The act, which provided for the establishment of a state monopoly for import, purchase and sales of food grains, was prompted by the experiences gained from the failure of food grain supplies at the outbreak of World War I. Industry policy and distribution policy

considerations were also incorporated in the act. The industrial policy aspect referred principally to the National Grain Administration's obligation to buy up all Norwegian-produced grain suitable for food, and the distribution policy aspect motives to the requirement that the grain was to be marketed at the same price nationwide. Right from the inception of the new Grain Administration the commercial aspect was emphasised by the director being given wide freedom, even though the company was formally placed under the Ministry of Agriculture. The company's employees were not regarded as civil servants.

Since its reorganisation the National Grain Administration has continued as an government administrative enterprise responsible for administering the authorities' grain policy and commercial policy schemes for the entire agricultural and food sector. In addition the company buys all Norwegian-produced grain on behalf of the state.

Statkorn holding AS's mission is to produce, process and market grain, grain products, feed concentrates and other agricultural and aquacultural inputs. Alongside the parent company Statkorn comprises two wholly-owned and two partly-owned subsidiaries set up after the reorganisation. As in the case of Norsk Medisinaldepot AS, treatment of the Revised National Budget in the spring of 1997 resulted in a majority of the Storting in favour of a partial privatisation of the company. This issue is now being considered by the owner-ministry.

2.2.3 Limited companies partly owned by the state

The big limited companies in which the state is part-owner are to be found in the manufacturing sector and the banking sector. The state involvement in the manufacturing sector after World War II is rooted in three factors. First and foremost in the implementation of pre-war plans to establish a national iron and steel industry to make Norway independent of cyclically sensitive steel imports. Norsk Jernverk (national iron works) was founded in 1946 and Norsk Koksverk (national coke works) in 1960. Second, the state - through the confiscation of enemy property after the end of World War II - took over earlier German shares in some manufacturing enterprises. Hydro ASA is the biggest and best known of these companies. The third reason for the state's participation in industry was that the arms manufacturers Kongsberg Våpenfabrikk, Raufoss Ammunisjonsfabrikk and Marinens Verft in Horten were reorganised into independent companies.

The limited company model was chosen for Norsk Jernverk, while for the arms manufacturers a special act was passed showing many similarities with the Companies Act. For enterprises in which the state took over the German share and became part-owner, the Companies Act applied to the full, and the state exercised its ownership as one of many owners.

The arms manufacturers and AS Norsk Jernverk and AS Norsk Koksverk were wound up during the 1980s and the state's participation in big industrial enterprises today comprises majority holdings in Hydro ASA, Kongsberg Gruppen ASA and Raufoss ASA.

The state holding in Hydro ASA is 50.2 per cent. In 1996 the company recorded a turnover of NOK 84,800 million and employed 37,000 persons.

The state holding in Kongsberg Gruppen ASA is 50.0 per cent. In 1996 the company recorded a turnover of NOK 3,023 million and employed 3,212 persons.

The state holding in Raufoss ASA is 53.3 per cent. In 1996 the company recorded a turnover of NOK 2,600 million and employed 1,800 persons.

The shares in these companies are capitalised in the Ministry of Trade and Industry, and the state exercises its proprietary role pursuant to the Companies Act through participation in and voting at the companies' general meetings.

The rationale for state ownership in the banking industry was the need in the period after 1945 to establish financial institutions which could contribute to *social equalisation and equality*, viz. Den norske stats husbank (state housing bank), Statens lånekasse for utdanning (State Loan Fund for Education), Norges Kommunalbank (municipal bank) and Postbanken (post office bank), and to *financing industrial and commercial development*, viz. Statens fiskarbank (state fisheries bank), Statens landbruksbank (state bank for agriculture) and Statens nærings- og distriktsutviklingsfond (Government Industrial and Regional Development Fund).

However, a new situation arose with the onset of the Norwegian banking crisis at the end of the 1980s and early 1990s. In order to prevent a financial market collapse a package of measures was set in train in 1991 and 1992 to save several major banks. As part of this package the Government Bank Investment Fund was set up in November 1991.

As a consequence of the rescue operation in 1991 and 1992 the state became the dominant owner in the three biggest commercial banks, and the government and the Storting recommended continuing the state ownership in the two biggest banks after the crisis was over. The justification for prolonging state equity participation was to secure stable and national ownership, and to ensure that central decision-making functions remained in Norway so as to pre-empt weakening the focus on the development potential of Norwegian commerce and industry. As regards the size of the state's owner-share, a level in excess of one-third (blocking minority) was considered sufficient, but until further notice the aim was to retain a state share of not less than 50 per cent in the two banks. In the autumn of 1997 the departing government tabled a proposal in the Storting to reduce state ownership to one-third. The proposal has not yet been considered by the Storting, but judging by the reactions of the biggest parties, it will achieve a majority.

In addition to the state's part-ownership of limited companies exercised by the ministries and by the Government Bank Investment Fund, state ownership is also exercised in the share market via other channels: through shareholdings owned by the wholly-owned companies, through shares held by the state in public funds and endowments and through shares held by Norges Bank, the Government Industrial and Regional Development Fund and the National Insurance Fund.

The mission of the Government Industrial and Regional Development Fund (SND) is to promote commercially and socioeconomically viable economic and industrial development in all parts of the country, and its instruments comprise loans, guarantees and equity capital contributions (share purchases).

The National Insurance Fund was established in conjunction with the passage of the National Insurance Act in 1966 (providing for a universal state sickness and social insurance system) and the fund's mission is to be of the greatest possible benefit for this system. Based on the justification of strengthening the supply of equity capital to Norwegian commerce and industry from domestic sources, the fund was in 1991 authorised to make share investments on a business footing. It is possible to own shares for up to 20 per cent of the fund's capital, and the maximum ownership share in each company is 15 per cent of the share capital. The fund is a long-term, passive investor (not represented on the board). As of 31 December 1996 the share portfolio was NOK 8,553 million distributed on 39 companies.

2.2.4 Internal service provision

Enterprise	Owner-ministry	Form of bus. org.	No. of employees	Turnover	Result for the year	Dividend to the state
Statsbygg	PSD	FB	617	1 900	1 093	10
Statens Kartverk	MD	FB	645	420	2,1	-
Statens Kantiner SF	FD	SF	660	321	(7,8)	-

Statsbygg (formerly an administrative agency, the Directorate of Public Construction and Property, SBED) was established with the conversion of the Directorate into a government administrative enterprise in 1993. The SBED had a long history going back to 1794 when a buildings inspector was appointed for public non-military buildings in and around Oslo. In 1960 the building administration which up to then had been dispersed across various ministries, was concentrated in a joint agency and its functions organised in a directorate, the SBED.

The change from a directorate to a government administrative enterprise was rooted in reforms of government budget policy. A system in which government agencies were not charged rentals over their own budgets was abandoned in favour of a system in which the users of government buildings would defray the expenses themselves. The background was a wish to bring about more coherent and rational resource use and prioritisation on the part of users. Another wish was to achieve more correct costing of institutions' use of government premises. These changes also entailed that government agencies can choose lessors other than Statsbygg and that Statsbygg can take in lessees other than government undertakings.

Statens Kartverk (State Mapping Authority) is Norway's national institution for mapping and geographical information. The agency is one of the oldest government agencies and "Norway's Geographical Survey", which forms part of the present mapping authority, celebrated its 200th anniversary in 1973.

Because of development of new technology in the mapping field (satellite-based navigation, digital mapping etc.), and an ever-increasing share of user financing, the Mapping Authority, based on the need for greater flexibility and capacity for readjustment, was turned into a government administrative enterprise in 1994. Of the Authority's total turnover, basic financing over the government budget accounts for about two-thirds and external user financing for about one-third.

Statens kantiner (government catering company) was converted from a government administrative enterprise to a government-owned company on 1 January 1997. Statens kantiner has operated canteens, a hotel for military personnel on leave and catering services for other central state institutions. In recent years lunchroom services for state institutions have been exposed to competition from private entities. Conversion to a government-owned company is a result of reorganisation of the armed forces. Statens kantiner was defined as a type of support function which could become a more effective and flexible service through exposure to competition.

In order to meet the competitive situation it was considered necessary to give the company greater freedom than it had enjoyed as a government administrative enterprise.

3 Reform strategies

The following chapter describes the main changes carried out in regard to public enterprises and companies, and the state's role as owner after 1980.

The discussion on modernising the public sector started in the mid-1980s. A reassessment of state affiliation and ownership for a number of public enterprises was initiated as part of this process. Much of the platform for the work in hand was laid through the study "*A better organised state*" which was presented in 1989.

In the period 1980-1997 about 50 undertakings (i.e. including industrial companies that have switched from full state ownership to partial state ownership) have changed their form of affiliation to the state. All the enterprises in question acquired a freer position in relation to the state.

Chapter 2.4 referred to the state's ownership through the share market and chapter 3.5 discusses some of the perspectives inherent in the fact that in the years ahead Norway will, in its capacity as an oil nation, have to take on new tasks connected with the administration of its growing oil wealth.

3.1 New forms of affiliation⁵ for public enterprises

The recommended reforms in the organisation of public enterprises that were set out in *A better organised state* were aimed at clarifying general and fundamental guidelines for choosing and formulating forms of affiliation for such enterprises.

The reporting committee pointed out that it was advisable to concentrate on a limited number of main forms of affiliation with differentiation within each of these forms, and recommended that in the main the state should organise its activities either as government administrative agencies or as independent government companies, in the event through equity participation in such companies (part-ownership).

The committee recommended that the administrative agency model should remain the principal vehicle for state involvement, while for the major national infrastructural and service-providing agencies such as the Norway Post, Norwegian Telecom and Norwegian State Railways (NSB), the committee recommended the government administrative enterprise model. But to meet a bigger need for commercial flexibility, it recommended giving government administrative enterprises the right, alone or together with other entities, to commit themselves to enterprises engaged in business activity of a more specialised nature. The committee recommended that channelling state involvement through the establishment of companies that are legal persons in their own right and detached from the government budget should be confined to cases where the state participates in business activities on a general economic and commercial basis.

The committee's report prompted the formalisation of a new form of business organisation, i.e. *government-owned company* (see Chapter 2) and led to reviews and reassessments of a number of public enterprises' affiliation to the state.

In 1994 the Ministry of Government Administration prepared a guide on state affiliation which was essentially based on the recommendations contained in *A better organised state*. The guide recommends that changes in form of affiliation should be confined to the main forms of government limited company and government-owned enterprise. Which of the two forms is chosen should be linked to what need there is for overall control in the sector in which the enterprise is to operate. Where there is a clear need for control the government-owned enterprise model is recommended, whereas the limited company model is recommended if control can be achieved within the framework of the Companies Act.

The situation after some years of change shows that the aim of bringing about fewer and more clear-cut main forms of business organisation have not been achieved. Indeed there is now a greater variety of forms of business organisation

⁵"affiliation" denotes both *legal* and *economic* ties to the state.

than previously, and big companies such as Norway Post (BA) and Norwegian State Railways (BA) are now organised as hybrids showing similarities both with government limited companies and government administrative undertakings. Trends and changes in public enterprises' framework conditions in recent years have in several sectors brought changes in enterprises' state affiliation that depart from the guidelines set out in *A better organised state* from 1989 and Ministry of Government Administration guidelines from 1994.

Part of the reason for this will be elaborated on in the following in a closer look at the process of change of the three major transport and communications enterprises Telenor AS, Norway Post (BA) and Norwegian State Railways (BA).

In May 1994 the government presented a bill in which it gave an account of the situation of the three above-mentioned enterprises. The bill stressed the importance of the political authorities' overall control of these enterprises. The need for national control was linked to their role as an important competitive factor for commerce and industry and public sector activity, and also underscored by the fact that they are tools for safeguarding distribution policy goals such as uniform service provision on the same terms throughout the country.

The major and rapid changes in technology and market conditions in the telecommunications sector prompted the government in the same document to recommend to the Storting that Norwegian Telecom be turned into a wholly-owned government limited company. For Norway Post and NSB no changes in the government administrative undertaking model were recommended. The proposal was adopted by the Storting and the government administrative undertaking Norwegian Telecom was converted into a government limited company named Telenor AS on 1 January 1995.

The question of converting Norway Post and NSB into legally independent companies was put on the agenda anew as early as the autumn of 1996. In the summer of 1996 the respective boards of Norway Post and NSB had considered the question of company formation, and a majority of both boards recommended that Norway Post and the passenger and freight section of NSB be turned into government limited companies. The rationale was to achieve the flexibility needed to meet the current and future competitive situation in as efficient a way as possible. Both boards contained a minority comprising employees' representatives who voted against. They leant on the conclusions of a study being prepared by the liaison committee between the Labour Party (in office) and the LO (Norwegian Federation of Trade Unions) which advocated the hybrid model. This was also the gist of the government's proposal, which was supported by a majority of the Storting when it considered the matter the same autumn.

The government's recommendation of the hybrid model was above all grounded in the importance given to the employees' desire for job security in the reorganisation process. Continuation of the rules on priority, notice and severance pay for civil servants on a permanent basis could only be achieved through special legislation (see Chapter 3.4). The liaison committee's report also

emphasised that employee job security was of significance for effective implementation of the companies' reorganisation process.

Apart from these special provisions the enterprises were organised under the respective legislation as government limited companies each with a general meeting and board. The companies are legal persons in their own right and the state is not liable to creditors for the companies' debts. As in the case of Telenor and Statoil their articles of association impose an information requirement on the board vis-à-vis the general meeting in questions involving basic principles, and the general meeting must be informed each year of plans for each company and its subsidiaries.

Constraints have also been incorporated in the companies' right to make organisational changes which would result in key parts of their activity being spun off into separate subsidiaries. The same applies to acquisition and start-ups. The hybrid model entails that the general meeting can not dissolve the company as a legal person as is possible under the Companies Act. Dissolution can only be carried out after adoption of special legislation by the Storting.

3.2 Company formation and the relationship with the employees

Employee participation is an important principle in the world of work in Norway, and, as touched on in Chapter 3.1, consideration of employees' interests has been an important premise for the choice of form of business organisation for major enterprises such as Norway Post (BA) and NSB BA. This chapter takes a closer look at the differences in terms of rights and job security between civil servants and other employees, at the employment effects of the reorganisation processes and measures for redundant staff.

Civil servants' rights are regulated through the Civil Service Act, while private sector and municipal employees' rights are regulated through the Working Environment Act. There are a number of differences between these acts, the most important being that the Civil Service Act gives stronger formal protection against dismissal. Civil servants who lose their job because a position is withdrawn or because the work ceases enjoy on certain conditions a preferential right to a new position in state service and to severance pay. The conditions for receiving severance pay (civil servants) and the conditions for receiving unemployment benefit (other employees) mean that in the short term there is little or no difference between someone who is given notice under the Working Environment Act and someone given notice under the Civil Service Act. The benefits are of similar size. The difference lies in the duration of the benefits. For civil servants this is dependent on age and ranges from a maximum of three years for the under-35s to retirement age for the over-50s. This is limited, however, by the number of years in service such that no-one may receive severance pay for a period exceeding the number of years they have been employed by the state. The rules on unemployment benefit restrict the duration of payments, and the size of the amount paid is reduced over time.

As regards collective agreements, employees in a government administrative undertaking that turns into an independent company will no longer have the state as counterparty in a collective agreement. A new employer association - NAVO ("Norwegian employer organisation for undertakings with public affiliation") - has been established to safeguard employer interests in collective agreements. The employees retain their membership in their previous trade unions.

In order to ease the shift from government administrative undertaking to independent company, transitional arrangements have been agreed which entail that for a specified period after reorganisation employees have been allowed to retain their protection against dismissal in the form of preferential rights to other state positions and the right to severance pay in accordance with the provisions of the Civil Service Act. By way of example, for employees of Telenor AS this period was originally set at three years, and in the summer of 1997 it was extended by a further year. For the hybrid companies Norway Post (BA) and NSB BA these provisions are incorporated in the articles of association such that after the formation of the company the employees retain their status and rights as if they were civil servants.

3.2.1 Number of employees in undertakings undergoing reorganisation

Comparable figures for the number of employees at the various enterprises are difficult to find because the functions and structures of the reorganised undertakings are constantly changing. Areas have been spun off into subsidiaries and other companies have been taken over. After examining the statistics from the undertakings presented in chapter 2, the abiding impression is that reorganisation measures have so far been of little significance for the staff situation. There are some exceptions, above all Telenor AS. In the following a closer look is taken at developments at Telenor AS, Norway Post (BA) and Norwegian State Railways (BA).

For **Telenor AS** workforce reductions have taken place over a long period in step with technological developments. Between 1987 and 1994 (the year prior to Telenor's conversion to a limited company) the workforce was reduced from 18,283 to 13,035. Between conversion and the end of 1996 the workforce was further reduced to 9,099 at the parent company. However, owing to expansion into new areas and acquisitions, the current groupwide workforce numbers about 19,400.

Norway Post (BA)'s workforce has been stable over the past five years at just over 26,000. This is partly because no changes have been made in the post office structure during this period. In connection with the Storting's consideration of a white paper on postal services in the spring of 1996, authorisation was given to reduce the number of post offices run by Norway Post from about 2,300 to 900 over the next few years. This and other rationalisation measures are expected to be reflected in workforce numbers in the years ahead.

The trend in the number of persons employed by **NSB BA** has been stable over the past five years, albeit with small annual reductions. Between 1992 and 1995 the workforce was reduced from 12,537 to 12,143. After the split-up in 1996 the workforce at the various undertakings numbered 7,383 at Norwegian State Railways (NSB BA), 3,500 at the National Railway Administration and 6 at the Norwegian Railway Inspectorate.

These three enterprises have established units to deal with personnel matters during the readjustment processes, including meeting the need to build up expertise and provide help to find new work in or outside the enterprises.

In 1993 Telenor AS set up a unit termed "Telenor nye muligheter" (Telenor new opportunities) to help employees facing redundancy. Between its establishment and closure on 1 February 1997, 4,700 persons had passed through the unit. Of these, 2,057 were reassigned to jobs within the Telenor Group. Two thousand one hundred and eight left Telenor. Four hundred and sixty retired and a total of 361 were on severance pay pursuant to the Civil Service Act as at 31 April 1997.

In 1991 NSB BA set up its own unit under the designation "Staff Centre" (NSBs Personalsenter). The staff centre is expected to remain operational up to 1999. By 31 March 1997 a total of 922 persons had been referred to the Centre since its inception. Of these, 596 had been reassigned to jobs within NSB, 64 had left NSB and five had retired with a pension.

Norway Post established a similar "staff centre" in 1995 and wound it up in the autumn of 1997. As of 31 March 1997, 282 employees affected by rationalisation of the postal giro system had been referred to the Centre. Staff issues resulting from the reorganisation of the post office structure will be resolved at line level.

3.3 Board and managing director

The respective ministries perform the owner function vis-à-vis the companies and appoint their boards. The boards appoint the managing director. So far there does not seem to be a clear-cut trend towards bringing in managing directors from the private sector to top positions in the companies. The same applies to the boards which are broad-based and often headed by persons with political experience.

Statoil AS, for example, has been headed by two managing directors with private sector experience and with political careers as state secretaries. Telenor AS's managing director was brought in from the post of secretary general⁶ at the Ministry of Finance. Norway Post (BA) has traditionally appointed leaders from its own ranks. NSB BA marks itself out in this respect from the other major enterprises in that its last three directors have come from the private sector, and

⁶I.e. the highest administrative post in the ministry.

also because of turbulence and repeated managerial changes over the past ten years.

3.4 Use of consultants in the reorganisation process

The practical implementation of reorganisation has been handled by the respective owner-ministries. External consultants have been employed in varying degrees. External consultants have generally been taken on to value assets in the opening balance of those undertakings that have become independent companies. Some owner-ministries have employed consultants to assist with spinning off business areas into separate limited companies while the enterprises were still government administrative enterprises and part of the state as a legal person. The individual companies have in varying degrees availed themselves of external consultants to assist with specific aspects of reorganisation.

Sales of bank shares by the Government Bank Investment Fund have taken place on a purely commercial basis and Norwegian and foreign brokers have been enlisted for the purpose. Information campaigns and quotas carrying pre-emptive rights have been employed in efforts to attract former shareholders and bank staff, without resulting in any form of discount on the shares.

3.5 The state in the role of investor and player in the share market

Report to the Storting No. 61 (1996/97) entitled "*Ownership in commerce and industry*", which was presented by the newly departed Labour Party government in the autumn of 1997, discusses and elaborates on the state's owner-role. The report discusses ownership in general, and the objectives of state ownership in particular.

The report emphasises that the state should contribute through its ownership to safeguarding employment and the Norwegian welfare society. State ownership is justified with reference to the need to strengthen the element of long-term Norwegian ownership in commerce and industry and contribute to a stable ownership structure, which will in turn help to safeguard a nationally-based and vigorous business sector countrywide.

As instruments to follow up these intentions, the government proposed setting up three new state funds: a so-called "seed-corn capital fund", a "technology fund" and an "environment fund".

The report also recommends setting up an investment company in which the state would team up with private interests. The company would be funded by share capital and quoted on the Oslo Stock Exchange. A maximum of 49 per cent is stipulated for the state's ownership share, and an institutional framework has been drawn up for the company entailing separation from the central government administration. The company will be kept separate from the petroleum fund.

Since this report has not been dealt with by the Storting and a new government has recently taken office (a minority coalition of centrist parties), it is uncertain how the report will be followed up.

Norway's position as an oil nation has led to the establishment of the Petroleum Fund. It was set up by the Storting in 1990 and will grow into a fund of substantial dimensions in the years ahead. Based on the assumptions set out in a projected baseline alternative in the long-term programme from 1997, the fund will measure 130 per cent of GDP in the year 2020. The guidelines for investment by the Petroleum Fund have been virtually identical to those applying to Norges Bank, i.e. stipulating investment in secure, interest-bearing paper abroad.

In the Revised National Budget for 1997 the government recommended that parts of the Petroleum Fund be invested in shares. Purely financial investments are recommended, thereby keeping holdings in the various companies at a low level. Norges Bank will be able to enlist external managers to handle parts of the fund. Both Norwegian and foreign managers will be considered. This recalls the National Insurance Fund's investment profile, with the exception that the National Insurance Fund can not invest in foreign shares. Given the size of the Petroleum Fund, the state will in the years ahead be in a position to develop a new owner-role as equity investor in Norwegian and foreign commerce and industry.

3.6 Privatisation

Little interest has been shown in the issue of privatisation during the reorganisation process. The few cases of privatisation that have been carried out refer to government manufacturing enterprises (Anker Batterier AS in 1985, Norsk Jernverk in 1992). One government manufacturing enterprise has been transferred to the workforce (Rana Gruber AS in 1992), while a few manufacturing enterprises have undergone partial privatisation (see Chapter 2.4.2). Although few in number, the enterprises in question have been relatively large by Norwegian standards as well as cornerstone enterprises in their host localities.

In connection with the challenges facing Telenor AS in the shape of major foreign telecommunications operators in the wake of deregulation scheduled for 1 January 1998, the managing director has raised the question of partial privatisation of the group. The government minister responsible has so far rejected such views.

3.7 Trends

What aspects have typified the Norwegian debate on changes in public enterprises and companies? In the first place the question of privatisation, with the exception of manufacturing enterprises, has not been an important part of the

debate. Second, the attempts to draw up basic criteria for choosing a form of business organisation with a view to separating policy decisions from business activity have not led to simpler practical solutions. This was the case both in the debate and the decisions in regard to government manufacturing enterprises in the 1950s and 1960s, and again in the 1990s in regard to new forms of state affiliation for public enterprises and conversions of government administrative undertakings into independent companies.

The concrete decisions taken have been practical and pragmatic in which the results have been achieved by balancing the interests of various groups (cf. Norway Post (BA) and NSB BA). This process has in total entailed a pragmatic incrementalism in which care has been taken not to make major fundamental decisions that would have major immediate consequences. The changes have come about through small step-by-step decisions with a high degree of consensus among the affected parties. This harmonises with pictures sketched elsewhere of the Norwegian state as a reluctant reformer.

This approach to implementing change processes makes it difficult to foresee whether the changes that have now been implemented will last for some time or whether the companies will continue to distance themselves little by little from the state. A study made of the privatisation of Norsk Medisinaldepot AS and Statkorn Holding AS (see Chapter 2) just a few years after their conversion to government limited companies could suggest a continued step-by-step process of change - in the first instance for those undertakings where no specific needs for policy control have been in evidence.

There are many possible reasons why the Norwegian reorganisation process has taken this course. In addition to a tradition of consensus decision-making, an important factor is probably the strong financial position of the state sector. Moreover, Norway is a country with a very far-flung population, a country where regional policy and equalisation have strong historical roots and carry great political weight. This has been particularly marked in the debate on the big transport and communications companies, and is also embodied in provisions for these companies which ensure that their voice will be heard when they face policy choices which may affect these interests.

4 Relationship between political control and commercial operations

The debate on forms of affiliation and ownership has proceeded with varying intensity over a long period. Between the establishment of the offices of director general for the postal services, telegraph and railway administrations in the 1850s and 1860s and World War II, this was part of a general debate on whether particular state functions should be fully integrated in terms of affiliation and organisation into the ministry in question or be turned into separate administrative agencies in their own right. In this period these enterprises were at times part of a ministry, at other times outside the ministries as separate administrative agencies. The debate revolved largely around purely practical

economic and administrative issues such as whether the establishment of separate agencies would entail overlapping of the work of the ministry and the administrative agency. Through the process leading to the establishment of Vinmonpolet this debate acquired a new slant with the choice of organisational form for the company that was intended to mark a separation in terms of responsibility between the company and the state. The Ministry of Foreign Affairs in particular was eager to see the limited company model chosen in order to avoid direct conflicts with wine-exporting countries which were highly sceptical of the restrictive Norwegian sales practice and exerted pressure to bring about the freest possible market.

After World War II the debate on forms of business organisation gathered momentum. But the reasoning was entirely different. Now it was the need for commercial freedom of manoeuvre that stood to the fore, and the point of departure was new government industrial establishments. With the choice of the limited company model for several enterprises, the constitutional aspects also received attention. These issues were studied by several committees and commissions in the period 1948-1960. An important issue was the Storting's constitutional control of the enterprises. The minister was duty bound to maintain control of the activities of public enterprises insofar as far this was permitted by the Companies Act. For its part the Storting was entitled to oversee that the minister in his conduct in the company stayed within the constitutional limits for his exercise of authority. As a response from the government to the Storting's demand for greater control of the companies a practice evolved whereby central government officials and officers were appointed to the boards of government-owned companies. This practice, which incidentally was the subject of political strife, was phased out in the first half of the 1960s. An important reason for the cessation of this practice was the so-called Kings Bay affair and the ensuing debate which led to the departure of the incumbent government following a vote of censure in the Storting in 1963. The background for the vote of censure was a mining accident involving fatalities in the state coalmine at Kings Bay in Svalbard in 1962. It was asserted that the placing government officials and officers on the boards to strengthen the opportunities for control may actually have been counter-productive since conflicts of loyalty arose between the owner-role and controller-role.

4.1 Dividend policy and predictability

Although the debate has for long periods been less intense than it was around 1960, the issue of control and management of government companies, and of role-division between the government and the Storting, has stood to the fore throughout the postwar period. With the new government companies established in the 1990s it has again gained currency. One expression of this is the discussion about the Storting budget proceedings that arose in the autumn of 1996. In the final budget debate a proposal was presented which entailed that a bigger dividend would be taken out than the company boards had recommended and the government had proposed in the government budget for several of the companies. This led to great concern in the companies as to the state's role as owner and the state's exercise of the owner-role. Several of the undertakings

expressed misgivings about what was described as Storting members' lack of a sense of responsibility for the companies' equity needs, and they stressed the necessity of clear-cut framework conditions from the owners. This episode indicates that the debate between the companies' desire for commercial freedom and predictable framework conditions contra the Storting members' desire for wide-ranging powers as owner has not been laid to rest⁷.

Some of the uncertainty which arose during the final budget debate in 1996 will be mitigated through changes adopted in the Storting's budget procedures in the spring of 1997. Dividend from government companies will now be collectively subject to a revenue ceiling which, once it is adopted, can not be raised, even if a majority of the Storting wishes to raise expenditure on another area and therefore needs new funds. This does not mean that government companies are shielded from adoption by the Storting of higher dividend than that recommended by the companies and proposed by the government in the government budget, but some of the uncertainty and unpredictability is removed inasmuch as spending increases in other areas must be met within the particularly area's ceiling and not, for instance, with the aid of higher dividends from government companies as proposed in the autumn of 1996.

Report No. 61 to the Storting (1996-97) discusses principles for practising the state's owner role in companies operating in a competitive market. A call is made for general control in the form of a dividend policy which ought to be predictable for the individual company and should as a rule should remain unchanged over a period of several years. In stipulating the dividend requirements it is argued that the state should apply the same principles to return as do private investors, i.e. that the required rate of return should be adapted to the risk incurred by the owner (the state) as a result of the activity in question.

4.2 The state in the dual role of owner and market regulator

The state's dual role of market participant and regulator has been placed on the agenda thanks to conversions of government administrative enterprises to public corporations, dissolution of monopolies and deregulation aimed at opening markets and stimulating competition in new areas. With the conversion of government administrative enterprises into government companies and moves for deregulation and demonopolisation, separate control bodies have been set up for several sectors in order to safeguard and ensure that both public sector and private sector companies comply with and adapt to the terms and guidelines applying to the sector (see Chapter 2). Moreover, the Competition Authority - which is charged with overseeing that price-fixing agreements etc., preventing free and open competition in all markets, are not established - is required to follow up such matters in collaboration with the new supervisory bodies. The sectoral supervisory bodies are organisationally separated from the ministries

⁷The legal basis for the Storting's right to such interventions is set out in section 19 of the Constitution which confers on the Storting the right to verify that the government manages the state's property in the manner decreed by the Storting.

but, like the companies, are placed under their respective ministries such that it is the same minister who is the owner and controller. Report No. 61 to the Storting (1996-97) argues in favour of this model partly because it is not considered desirable to set up independent bodies which can only be controlled politically through rule changes, and because it is expedient to concentrate information and knowledge about an area in one and the same entity, i.e. the same ministry. As a means of counteracting any confusion of roles, appeals against decisions of the new Post and Telecommunications Authority have for example been assigned to the Ministry of Planning and Coordination and not the Ministry of Transport and Communications. The Ministry of Transport and Communications performs the owner-role vis-à-vis government companies in this sector and management responsibility vis-à-vis the supervisory body.

4.3 Conclusion

Norwegian central government finances for several years ahead will be such that government budget deficits are unlikely to be the driving force behind reform efforts in the area of government ownership. International agreements and obligations, technological progress and the desire for greater freedom of action on the part of public enterprises are far more likely to prompt continued detachment from the state.

Abbreviations for ministries used in Chapter 2

NHD	-	Ministry of Trade and Industry
SHD	-	Ministry of Health and Social Affairs
LD	-	Ministry of Agriculture
SD	-	Ministry of Transport and Communications
KUF	-	Ministry of Education, Research and Church Affairs
OED	-	Ministry of Petroleum and Energy
MD	-	Ministry of the Environment
PSD	-	Ministry of National Planning and Coordination (as from 1.1.1998 The Ministry of Labour and Government Administration)
FD	-	Ministry of Defence

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Author:	Roger Jøsevold
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