

# THE TALE THAT WAGS THE DOG?

The Norwegian Government's promotion of StatoilHydro as an agent of energy and climate policies in Brazil

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All informants are treated confidentially and therefore referred to as (numbers). Some of the quotes they provided have been translated by me. I have presented the information as objectively as possible and assume full responsibility for any possible errors or misinterpretations. It is important to point out that there is no need for extensive background knowledge to learn something from this study. It is written to guide the reader through a learning process. If you have questions related to this thesis, please feel free to contact the author at [martin.hosojen@gmail.com](mailto:martin.hosojen@gmail.com). Sit back and enjoy the journey.

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## 1. Introduction

*What most of us regard as traditional development assistance will undoubtedly continue to be important for very many poor developing countries for many years to come. But unless we also pave the way for greater economic activity and value creation in these countries, it will not be possible to meet the overarching target of the UN Millennium Development Goals: to halve the number of people living in extreme poverty by 2015. We therefore have to keep two things in mind at once. Development can only take place where there is a well-functioning state and a well-functioning business sector. Neither is sufficient on its own... This means that the development of the business sector will be a high priority focus area for the Government in its international development cooperation... In addition to the expertise and experience to be found in public bodies, it is also vital to draw on the experience and knowledge of the Norwegian oil industry, NGOs and the media. We have made good progress in the coordination between the authorities, and we are now ready to include Norwegian oil companies and NGOs in this effort (Solheim 2006).<sup>1</sup>*

Much has happened in the world over the last few decades and the Norwegian Foreign Minister Jonas Gahr Støre has therefore initiated a project that creates discussion about the direction of a new Norwegian foreign policy, the so called Refleks project<sup>2</sup>. It is becoming more difficult to see a clear separation between foreign policy agenda and the development agenda. Development policy has its own minister, Erik Solheim, but must still be seen as a branch of foreign policy. “There has for a long time been a political goal to increase the cooperation between the state and Norwegian business actors that operates abroad” (PCC 2008:61). As early as 1961, the *Engenutvalg* stated that Norwegian business actors had the potential to play an important role in Norwegian development work (Kielland 2008). This makes it interesting to study the interface and the relationship between public and private in development policy, which will be the focus in this thesis. Increasing involvement of business will lead to more influence from transnational corporations (TNCs) on Norwegian policy and practice. There is a growing consciousness in Norway that actors in both the oil and gas industry and the Government must play on the same team to maintain Norway’s existing good reputation. Støre (2007) says in a speech to the management of StatoilHydro: “Today, you need to come up with good answers – because the world cares, and because the reputations of Statoil, Hydro and Norway are at stake at the same time.”

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<sup>1</sup> See also the NHO report from 2003 “Norwegian development cooperation policy – why should the Norwegian private sector be involved?” [http://www.norad.no/default.asp?V\\_ITEM\\_ID=2390](http://www.norad.no/default.asp?V_ITEM_ID=2390)

<sup>2</sup> See <http://www.regjeringen.no/nb/dep/ud/kampanjer/refleks.html?id=474693>

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There is a global trend that the power of the state is weakening and TNCs and non-governmental organizations (NGOs) are becoming more important and powerful. For example, StatoilHydro pays more than NOK 3 billion in taxes to Angola. In comparison, the Norwegian development budget for Angola is around NOK 150 million and for the whole of Africa South of the Sahara it is around NOK 4.5 billion (PCC 2008:98). The obvious problem with incorporating private actors in development initiatives is that they have their own agenda and cannot be forced into acting according to official Norwegian political targets. However, a politician (2) says that feedback and evaluation from the UN in general, and John Ruggie<sup>3</sup> specifically, are that Norwegian TNCs have highly developed thoughts on social responsibility and partnership with public institutions.

Norwegian development policy is increasingly understood as part of a political agenda, not just philanthropy. The Norwegian Government wants to focus its development projects in fields where Norway has high knowledge levels and resources. This thesis will use the Norwegian Action Plan for Environment in Development Cooperation as a starting point (hereinafter referred to as the 'Action Plan' (2006)). In white paper number 35 (2003-2004) the Storting asked the Government to develop this Action Plan, which was published in 2006, to produce one document that combined the Norwegian effort on environmental development cooperation. A source in the Ministry of Foreign Affairs (MFA) states that this document is a guide for the Government's daily work on development policy (22). Since the 1980s, with Gro Harlem Brundtland's report *Our Common Future*, Norway has aimed to become a leading nation within climate and environment. The parliamentary agreement on climate states that all political parties, with the exception of Fremskrittspartiet, agree that Norway should be a leading nation on environmental development work (Klimaforliket 2008). This is a way of empowering Norway's role in international society, and will be done with the use of Norwegian industry and firms profiling Norway. The Action Plan states several areas where Norway will focus its work. This thesis will focus mainly on climate and access to clean energy. Climate change is a transboundary environmental problem and mitigating climate change is an important part of development work because it is the poorest people that suffer the most from global warming.

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<sup>3</sup> Since 2005, Ruggie has served as the United Nations Special Representative on the issue of human rights and transnational corporations and other business enterprises <http://www.un.org/News/Press/docs/2005/sga934.doc.htm>

## 1.1 Research question and design

This leads to my research question:

What can explain the Norwegian Government's promotion of StatoilHydro as an agent of Norway's energy and climate policies in Brazil inspite of their different goals?

This study seeks to evaluate StatoilHydro's influence on the output side of Norwegian environmental development policy. Formulated policy sometimes differs from implemented policy initiatives. In this case, the Government has no formulated policy on how to promote StatoilHydro in relation to environmental development policy. However, the Norwegian political practice is to promote StatoilHydro as an agen of Norway's energy and climate policies in Brazil. StatoilHydro is Norway's biggest and most powerful energy company, which can imply influence on Norwegian initiatives on energy and climate. The Government has a substantial ownership in StatoilHydro, but because it has little influence on the governance of StatoilHydro, I will treat the company as a private actor. The dependent variable is chosen to be *governmental decision to promote StatoilHydro as a Norwegian agent in realizing energy and climate initiatives in Brazil*. There are probably various factors and explanations for change in the dependent variable which will not be covered in this work. This thesis is based on the following hypothesis:

H<sub>1</sub>: The Norwegian Government has promoted StatoilHydro as an agent of Norway's energy and climate policies in Brazil due to StatoilHydro's power.

H<sub>1</sub> is founded on the assumption that power can lead to influence. Empirical findings which substantiate that StatoilHydro has considerable power and uses this power will strengthen H<sub>1</sub>. Conversely, findings indicating that StatoilHydro has limited power and little opportunity to benefit from its power will indicate that H<sub>1</sub> has little credibility.

I will explain wheter StatoilHydro's power over the Government changes Norwegian political practice in Brazil. The explanation for why the Government promotes StatoilHydro as an agent of Norway's energy and climate policies is based on the company's power foundation. The research question is studied based on the model outlined below (see figure 1.1). I argue that StatoilHydro can have an effect on the dependent variable through two



sources of power: *power resources* and *power activities*. StatoilHydro's power resources deal with power relating to its resource position while power activities are the company's executive power. There is reason to believe that StatoilHydro holds these types of power through various channels. The different channels of power are demonstrated by reference to the case of Brazil.

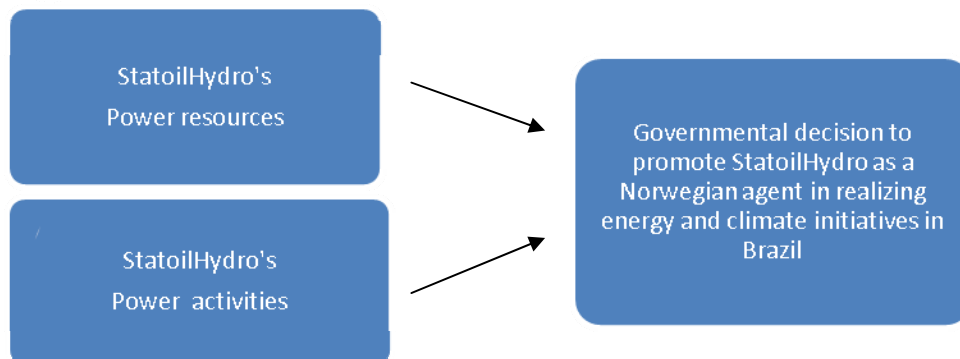


Figure 1.1: Research model

This work is based on the assumption that power renders probable influence. The more power StatoilHydro holds, the more reason to argue that the company has influence. It cannot be concluded that power leads to influence, but it is an indication for StatoilHydro's potential ability to influence. The analysis of StatoilHydro's effect on the dependent variable is separated into two parts. First, in chapter 5 and 6, I address two important areas. First, I explain how StatoilHydro is supported by the Norwegian Government and promoted as a Norwegian agent in Brazil. Second, I analyze StatoilHydro's activities in Brazil compared to six formulated policy targets in the Action Plan to see if StatoilHydro's activities are contradictory to governmental policy. The second part, chapter 7, analyzes the different channels where StatoilHydro holds power, illustrating how the company has received governmental support despite that StatoilHydro's interests not necessarily corresponds to the Government's formulated objectives. Figure 1.1 is thereby the starting point for studying the political role of StatoilHydro in the process from formulated policy to the implementation of the policy in practice.

## 1.2 Justification of the research question

This research question is relevant for several reasons. First, the growing dependency on private actors combined with the lack of regulation make society dependent on corporate social responsibility (CSR) and Public-Private Partnerships (PPPs). CSR is a trend that seems to change some firms' behavior in good economic times, but it will not automatically work the same way in the long run. It will be interesting to follow the CSR trend in the process and aftermath of the current financial crisis. Society has become more dependent on the market that spreads its mechanisms and functions to other parts of society, such as climate and energy policy. The importance of private actors leaves an indistinct line between the state and the market, which should be thoroughly analyzed from different perspectives. The Brundtland report claims that TNCs have a special responsibility for sustainable development (Brundtland Commission 1987).

Second, there is probably a lack of dialogue and communication between the public and private sectors. This means that the Government arranges business deals for Norwegian companies such as StatoilHydro, with companies in the host countries, in the absence of clear and in-depth discussion between the Government and StatoilHydro. It is important that PPPs also benefit the public and if the Norwegian Government wants to start a closer partnership with private actors it is dependent on knowledge about problems and opportunities related to such cooperation. Kielland (2008) states that, except from his master thesis, there have been no studies in political science in the last 15 years on the relationship between development aid authority and the business sector. In addition, the democracy debate requests knowledge about who is a premise provider in such a partnership. The conclusions from such research could be helpful for the design of Norwegian policy and practice in the coming years.

Third, the emerging importance of energy supply combined with the risk of climate change is an area requiring urgent action. The International Energy Agency (IEA) states that the global energy demand will increase by 59% from 2006 to 2030 (in Lindseth 2007:20). If the intensified climate initiatives and subsidizing of renewable energy are taken into account, the demand for fossil fuels will increase by 50% by 2030 (Lunde et. al. 2008:38). The important issues for Norway will be the scarcity, politicizing of and competition for oil and gas resources (ibid.). The global emission of climate gas has increased by 70% over the last 40

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years, and the energy sector is responsible for the highest increase – 145% (Alfsen 2008). The Government says that climate is today’s most important political issue, but it is problematic to act upon. The climate and energy dilemma can be exemplified by the petroleum versus renewables debate. It is a dilemma which, on one side, involves continuing expansion and internationalization of the Norwegian oil and gas industry and, on the other side, developing Norway into a leading climate nation (Lunde et al. 2008:207-208). The role of oil companies as a contributor to today’s climate problem has been widely discussed.<sup>4</sup> Moreover, the Norwegian energy sector has a competitive advantage on subsea extraction and carbon capture and storage (CCS) and is responsible for a large share of Norway’s exports.

Fourth, there is a demand to question the power and influence of the largest company in Norway, StatoilHydro. The petroleum industry is often seen as one united industry, but it is also important to remember that the companies are competitors (34). Oil and gas companies have resources and budgets comparable to those of small countries. To demonstrate: 19 out of the 25 biggest companies on the Oslo stock exchange are related to the energy industry (6). A source in the MFA says that “Norwegian policy is to promote Norwegian business interests” (26). However, business activities are not always subject to evaluation, to assess if they are in accordance with Norwegian development policy. Solheim (2008c) says that “we have to see the development policy as a whole”. This makes it especially interesting to examine if StatoilHydro’s activities in Brazil are in accordance with Norwegian interests formulated by the Government. Despite StatoilHydro being a commercial oil company, it is also the Norwegian state’s oil company, and therefore has a special role in Norwegian foreign policy.

Finally, the Norwegian Government is currently a three-party coalition and would be characterized as a socialist government. Its political ideology corresponds to the Brazilian Government’s views. Brazil is the main Norwegian focus area in Latin America and there is a political brotherhood between the two governments. For example, both countries are engaged in questions about the power relationship between developed and developing countries. There is a considerable focus on Norway’s reputation and StatoilHydro is probably the most important company reflecting that reputation in Brazil. StatoilHydro has

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<sup>4</sup> For example, lawyers in the US and UK try to find ways to sue oil companies for the part they played in accelerating climate change. This is similar to what happened to the tobacco industry (Van Tulder and Van der Zwart 2006:232).

developed a close relationship with Petrobras and the aggregated bilateral cooperation between Norway and Brazil is increasing. The newly established Norwegian Latin America Research Network<sup>5</sup> also shows the increasing Norwegian focus in this region.

### 1.3 Norwegian environmental development policy

“Environmental concerns should permeate everything Norway does” (politician (34)).

There is a growing consensus that supply of energy is the key to development. To combine this growing energy demand and the risk of global climate change there must be a considerable focus on making energy more environmentally friendly. The Norwegian Government supports StatoilHydro politically and financially to increase production internationally. Internationally, gas is seen as a solution to reducing climate gases, measured in carbon dioxide (CO<sub>2</sub>) equivalent units, because it is a better option than coal. The Norwegian petroleum industry has lower CO<sub>2</sub> emissions per produced unit of oil and gas, and StatoilHydro is seen as a front runner in developing CCS technology.

Internationalization of StatoilHydro is argued to be an act of solidarity for developing countries in need of climate friendly energy. In addition to using StatoilHydro as a climate initiative, the international Norwegian climate focus is mainly based on deforestation.

Many oil exporting countries have worked against international climate agreements and refuse to commit to emissions reductions (Lunde et al. 2008:208). At an OECD side event in December 2007, the Norwegian Minister of Finance, Kristin Halvorsen (2007), said “In Norway we recognize that it is in our own best interest to fight climate change even if our income from oil and gas exports could be hit. Long run sustainability cannot be traded against short run profits”. The Norwegian policy can be described as ‘a golden middle way’, which is based on Energi 21, the agreement on climate, OG21 and the Norwegian Action Plan (Energirådet 2008). Norway has expressed its desire to be at the forefront and to be an initiative taker since the beginning of the focus on climate change. This has led to international attention being placed on Norwegian emissions and policy development. The dramatic increase in the focus on climate change will lead to a larger percentage of aid money being directed towards environmental development work (Lunde et al. 2008:143).

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<sup>5</sup> The network’s secretariat is hosted by Center for Development and Environment. For more information see <http://www.norlarnet.uio.no/>

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The Action Plan has identified climate change and access to clean energy as one of its four thematic priorities. The central theme in the Action Plan is that climate change is a serious threat which Norway must act upon, in both domestic and foreign policy. The MFA states in the input to evaluation of the Action Plan that it can be professionally impossible to separate energy and climate initiatives and hence suggests reporting on combined environmental achievements. Furthermore, the private sector is argued to have a vital role because of its increased focus on CSR, development of low-carbon technology and investment in cleaner energy. StatoilHydro is not mentioned in the inputs to the Action Plan, but it is said that the energy sector, specifically oil and biofuel, is particularly important in relation to integrating environmental initiatives.

Selected targets in the Action Plan concerning climate and access to clean energy:

1. Increased technical cooperation with rapidly expanding countries like Brazil
2. Provide better access to reliable energy services
3. Enable use of Clean Development Mechanism (CDM)
4. Increased use of renewable energy
5. Increased investment in low-carbon technology
6. Improved energy efficiency

The Action Plan's direct effect on implemented Norwegian development policy can be widely discussed because other political documents can also be important. Furthermore, the implementation of policy does not usually correspond entirely with political documents. It is said that politics is usually not created based on elucidation and public policy documents (Wildavsky 1973 in Sverdrup 2007:92). This is particularly relevant in development policy. It is, however, my impression that the Action Plan creates the basis for environmental development work. As an extension of the Action Plan, Erik Solheim (2008; 2008b) stresses that Norway has four target areas for its policy on climate: CCS, Shipping, rain forest and the area around the poles. A source at the MFA (22), who took part in the development of the Action Plan, says that CCS was not a technology known to those developing the Action Plan. However, investment in low-carbon technology and rain forest are focus areas in the Action Plan, and will be dealt with in this thesis. The deforestation target has its focus on Brazil and belongs in two thematic priority areas in the Plan. It is an initiative under

sustainable management of biological diversity and natural resources, and also climate change and access to clean energy. Investment in the Brazilian rain forest is a substantial part of the Norwegian CO<sub>2</sub> reduction target. Emission trading has become one of the most important political instruments in climate policy (Lunde et. al. 2008:129).

The Policy Coherence Committee (PCC 2008:84) emphasizes the importance of considering energy and climate issues as both integrated and also in relation to each other. However, Gard Lindseth argues that Norway will not be able to fulfil its own environmental commitments nationally and internationally because of our oil and gas production (URL 1). In an MFA report Lunde et. al. (2008:114) point out that there are several dilemmas connected with a carbon dependent world when facing the threat of climate change. Lunde et. al. describe two different approaches to this. First, exploit the oil and gas resources as effectively as possible to reduce emissions, reduce flaring of gas and develop CCS technology. The MFA report stresses that the world will be dependent on oil, that produced energy in Norway has a considerably lower level of CO<sub>2</sub> emissions than the world average, and that Norway's best initiative is on CCS and other oil and gas related actions. This means that internationalizing the oil and gas industry is seen as one of Norway's most effective ways of cutting global CO<sub>2</sub> emissions (Ibid:128). Following this argument, some emphasize that Norway is, and should be seen as, a trustworthy and dependable exporter of oil and gas. This gives Norway some degree of 'petro-power' (Hansen 2008).

Second, Lunde's alternative approach is to create a means of developing a Norwegian economy and community that is not based on fossil fuels to the same degree (Lunde et al. 2008:150). This involves investing and focusing on becoming an environmentally friendly energy nation with increased research and development in renewable energy sources. The oil and gas industry is of course fighting for the first option. Option one is a very possible outcome because some of the new political documents, such as the Refleks Report, repeatedly use the arguments of the oil industry about Norway being an environmentally conscious petroleum nation (Ibid:209). However, it has been difficult to find clarification of Norwegian energy interests in the public domain. Lunde et al. realize that this might imply a lack of open and democratic processes related to development of energy policy. They say that "the climate debate has until 2007 not had any effect on administration of Norwegian oil

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resources worth mentioning” (Ibid:121)<sup>6</sup>. Climate policy has never been a threat to the oil and gas industry, although the oil and gas industry has been responsible for approximately 25% of Norwegian CO<sub>2</sub> emissions in recent years (Lindseth 2007:15). This has happened despite parliament resolving to stabilize CO<sub>2</sub> emissions to 1990 levels and also committing to the Kyoto protocol. The Policy Coherence Committee (PCC 2008:103) argues that this target can only be accomplished by not exploiting all the oil and gas available in the fields. However, the oil industry has pointed out that gas is actually seen as an environmentally friendly product in most countries, although it is seen as the problem rather than the solution in Norway (Lunde et al. 2008:148). The use of gas in power plants leads to 50% of the CO<sub>2</sub> emissions compared to coal and therefore creates a climate profile for gas (Hansen 2008). Norway’s, and StatoilHydro’s, expertise in gas could provide Norway with a role in supplying developing countries with gas as an alternative to coal. As demonstrated, Norwegian climate policy is to some extent focused on climate solutions related to petroleum.

The Government needs to develop guidelines for what Norway should do if different parts of its foreign policy are contradictory. “Sometimes one has to choose between two objectives that alone are good... and then one stands in front of a dilemma, a contradiction between two different considerations which only to some extent can be moderated, but never totally solved” (Lunde et al. 2008:202). For example, Norwegian environmental policy could threaten StatoilHydro’s position in highly prioritized projects, such as Peregrino in Brazil. This is a dilemma the oil industry is conscious about and it therefore uses resources to demonstrate that the oil industry is sustainable and can be developed into an industry for renewable energy (Ibid:210).

Arne Kjell Raustøl (in Jørgensen 2008) says that there is increasingly more discussion about how Norwegian aid can promote Norwegian interests and competence. Norwegian interests have become more important under Erik Solheim as Minister of Development. National interest is closely connected to an idea of who we are and a common national identity. We have to know something about who we are before we can say anything about our interests (Huntington 1997 in Sverdrup 2007). It seems impossible to get a clear and defined picture of what national interests are (Sande Lie 2007:104). National interests also consist of

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<sup>6</sup> See Nilsen, Yngve (2001) ”En Felles Plattform? Norsk oljeindustri og klimadebatten i Norge frem til 1998” for in-depth discussion about the Norwegian oil industry’s relationship to the climate debate.

contradictory interests, which leads to a dilemma about what will be the best solution for as many as possible. In addition to this uncertainty about national interest – and maybe because of it – theoretical approaches have tended to avoid using the term. Constructivism and post-structuralism disagree with the term because it gives an impression about objective interests. On the other side, rational actor approaches redefined the term so that interests are identified with subjective preferences (Sundstøl Eriksen 2007). Sundstøl Eriksen points out that the term makes it impossible to separate morally motivated and interest guided actions. Moral implication can be contrary to what are seen as economic interests. Solheim has worked hard to convince people that almost all aid and development work is in Norway's own interest.

#### 1.4 The argumentation and the structure of the thesis

The thesis will be divided into eight chapters. The following will outline the essence of each chapter. The next chapter, chapter 2, focuses on the process that will lead to the conclusion. It will explain the use of different methods and perform an evaluation of how the data is collected. This part argues that the best answer to the research question demands a qualitative case study based on interviews. I will account for choosing StatoilHydro in Brazil as my case and point to some problems I experienced in studying StatoilHydro's power.

Chapter 3 is an explanation of theoretical perspectives that are relevant in answering the research question. The theoretical framework is the supporting structure around which my thesis will be built. Due to the nature of the topic at hand, the thesis straddles a variety of disciplines and approaches. Political science, business management, economics, sociology and communication science have all made contributions relevant to this research question. Within political science, scholars in international relations, in particular international political economy, political theory, comparative politics and public policy, have all analyzed questions related to the research objective. Therefore, this analysis will utilize a wide range of literature and approaches. Much of political economy theory highlights the emerging role of TNCs in international politics and describes the relationship between politics and economics as becoming increasingly entwined in an era of increased political and economical interconnectedness. Based on this theory, I argue that StatoilHydro can be analyzed according to its power resources and power activities. Therefore, it should be fruitful to reflect upon the power, and especially the possible political influence, of StatoilHydro.



Chapter 4 puts the internationalization of StatoilHydro into a historical context.

Chapter 5 explains the empirical findings in the specific case of Norwegian environmental development cooperation in Brazil. I focus on explaining StatoilHydro's role and activities in Brazil. Furthermore, I give an account of the Norwegian Government's support for StatoilHydro in Brazil through the embassy, political delegations and INTSOK.

Chapter 6 evaluates StatoilHydro's activities in Brazil. It illustrates that the interest of StatoilHydro differs significantly from the Norwegian Government's interests, as they are formulated in the Action Plan. This evaluation points out that StatoilHydro contributes positively to some political targets. At the same time, I argue that governmental financial and political support for StatoilHydro's activities in Brazil should be re-evaluated because major parts of StatoilHydro's activities are contradictory to Norwegian policy in the Action Plan.

Chapter 7 is based on the conclusion of chapter 6 – that StatoilHydro's activities do not necessarily contribute to realizing Norwegian policy targets on environmental development policy. This chapter analyzes StatoilHydro's power as an explanation for why StatoilHydro is promoted as an agent of Norway's energy and climate policies in Brazil. I argue that StatoilHydro has influenced the Government in the process from formulated policy to development practice in a way that negatively affects the realization of Norwegian energy and climate targets and threatens the Norwegian reputation.

Chapter 8 outlines the main findings and conclusion of the study. The chapter also outlines implications of using StatoilHydro as an actor in development work. I argue that the Government needs to obtain a better understanding of StatoilHydro's and other TNCs' power influence if business is to contribute positively in environmental development work.

## 2. Reflections on methods

It should not be an objective of this study to find and discover scandals, but rather to learn about StatoilHydro's channels of power and how they can affect Norwegian energy and climate initiatives in Brazil. It is also important to note that the thesis is not a political document. I am not saying that one of the options is right or the other one is wrong. I am a researcher and "researchers are usually bad politicians" (Sverdrup 2007). I emphasize the arguments and the possible implications.

### 2.1 Qualitative case study

Because of the complexity of this field of study and the lack of previous research, I have chosen to use a qualitative case study. Qualitative case studies seldom give definitive answers with high levels of security, because these interpretations are open to subjectivity. Therefore, this thesis will focus on analyzing and pointing out trends and possible conclusions. It is more fruitful to focus on finding trends and mechanisms through an analysis rather than trying to statistically measure the power of StatoilHydro. It is important to point out that there is a lack of studies on the political role and the power of TNCs, which makes it a challenging field to study but also a highly interesting one.

A task for any social scientist conducting a case study is to place the study within a greater research field. Generalization does not necessarily mean finding universal laws. The objective of generalization is usually to formulate concepts, theories and clarify causal relations that are valid under certain conditions. Case studies do not generalize based on statistical representativity, but rather on analytical and theoretical representativity (Andersen 1997). Generalization from this work applies more to large business actors operating in markets with a high degree of international competition than for small businesses in local markets. StatoilHydro is, as argued, a political agent and the results from this study can be the basis for studying the political power of all Norwegian TNCs operating in countries where the Norwegian Government has development initiatives. This study can create the basis for wider research on the political agency of TNCs. It can therefore be relevant for other TNCs in the energy sector and especially for state owned companies. Internationally, the research is relevant for other oil companies. However, StatoilHydro has a unique position in Norway and the opportunity to generalize from this case must therefore not be exaggerated.

## 2.2 The case of StatoilHydro in Brazil



*Figure 2.1*

Brazil is one of the countries given the most attention in the Action Plan because Norway wants to focus on countries that have some existing CO<sub>2</sub> emissions and are expected to rapidly increase them. Brazil is a developing country with several social challenges. It is also one of the world's richest countries in terms of natural resources and one of the leading countries in the area of renewable energy. Many Norwegian companies have operations there already, and that number is growing. Both Statoil and Hydro have been present in Rio de Janeiro, the Brazilian oil capital, for some years and have now merged into StatoilHydro. Brazil could become the country that receives the most Norwegian aid in the coming years. Depending on the success of the rain forest fund, Norway will give up to NOK 717 million per year between 2010 and 2015. In comparison, in 2007 Sudan received the most Norwegian aid, with a total of NOK 701 million (Development Today 2008). "Norway is the first country in the world to contribute to President Lula da Silva's Amazon protection fund. It has pledged USD 1 billion through 2015. This includes USD 100 million in the first year and USD 600 million in the following year" (Nygaard 2008). At the same time, the Norwegian Prime Minister Jens Stoltenberg announced that Norway wishes to take part in the development of the Brazilian oil fields. Brazil has discovered significant oil reserves in recent years and the importance of Brazil as an oil and gas country has increased rapidly. StatoilHydro is the leading oil company in Norway and is among the ten largest oil companies in the world. It is the largest company in the Nordic countries and among the 50

largest in the world (Kullerud 2008). StatoilHydro has activities in more than 40 countries (StatoilHydro 2008c). In Brazil, StatoilHydro is both politically and financially supported by the Norwegian Government, which I will come back to later. In its input to the Action Plan, the MFA states that climate consequences of all initiatives financed by Norway will be evaluated. This also involves future prospective emissions.

### 2.3 Interviews and data collection

When deciding on what methods and design to use one must consider access to empirical data and how the data will illustrate the research question. I believe in using different approaches and combining methods. My original ambition was to undertake field research in Brazil. However, after consultation with various advisers I decided to carry out the research from Norway. Because of the focus on the interaction between the Norwegian Government and StatoilHydro, I would argue that the benefit of conducting research in Brazil would have been less than that achieved through focusing on interviews in Norway. The thesis is based on an extensive sample of documents, informants and observations. I finally received approval for access to insight into the documents relating to the Action Plan, which gave me the valuable opportunity to understand the process and the actors involved in developing the Action Plan and the inputs to the evaluation.

The informants consist of two politicians, two representatives from the Ministry of Petroleum and Energy (MPE), six from the MFA, one from the Ministry of the Environment (ME), five from StatoilHydro, three from interest organizations, five academics, one business representative and one consultant. It was an objective to get the informants to explain and reflect on StatoilHydro's political power in general, and StatoilHydro's role in Brazil specifically. Most of the interviews were performed confidentially to encourage the informants to talk openly. The interview objects will therefore be referred to using numbers. Most of the interviews followed a theme guide (appendix 2) and were recorded on tape. The recorded content was reviewed at the end of the work. In addition to the twenty-six 30 to 60 minute interviews, I have had conversations and email correspondence with various individuals, the information from which will be treated in the same confidential manner. All interviews were conducted in 2008. The informants have different agendas and their statements must be seen as their subjective opinion rather than the objective truth. In places in the text where I believe it is adequate and appropriate, I will point out who the informant is representing. Some of the data presented are also based on observations from various

seminars, workshops, conferences and meetings (See appendix 1). I am satisfied with the information I have acquired through my interviews. I have been privileged and had the chance to interview many important individuals. There have, however, been some challenges.

## 2.4 Problems related to studying power

The relevant Norwegian ministers have not agreed to meet with me due to time constraints. I have, however, obtained answers to some of my questions by asking them at conferences or seminars where the ministers were speaking. I have had good level of contact with StatoilHydro during the entire work process. The only restriction from their side has been that my contact with StatoilHydro Brazil had to be made through the communications manager for the South Atlantic Basin. Norwegian Oil and Gas Partners (INTSOK) has also been helpful in giving interviews and allowing me to observe some of its events. However, when confronted with questions about INTSOK's role in Brazil, the INTSOK representative in Brazil did not get approval by the administration of INTSOK in Norway to answer my questions. The thesis will therefore give the impression that it is difficult to obtain in-depth analyses on questions relating to power and influence.

During the scope of the study I used various interview techniques. When asked open questions the informants tend to talk around the issue. Direct questions either led to useful answers or the informant refusing to answer the question at all. When confronted with statements, the informants sometimes reacted as if they were being accused and became agitated. People tended to be uncomfortable addressing issues relating to terms such as lobbying, influence and political power. Many informants pointed out that some of what they said was a personal viewpoint and not the view of the organization they represent. Difficult questions were sometimes avoided by referring to other people in the organization. The technique which has produced the most effective results was to start the interview with facts and background information and continue by using information from other informants to confront the interviewee.

## 2.5 Line of action: a step-by-step process

To begin my work, I undertook an in-depth study of the literature on TNCs' role in international relations, Norwegian environmental development work, StatoilHydro and Brazil. From this, I developed a plan for who I wanted to interview and the areas I wanted

information about. These initial interviews gave me new insights about what type of informants and information were relevant for studying StatoilHydro's power and effect on the dependent variable. This process was repeated iteratively, with the result that my questions varied from individual to individual, depending on what point in the process they were interviewed and their role and background. The information I acquired became more and more relevant as I moved through the process. The same can be said about the informants. This step-by-step process comprising literature studies, observations and interviews has led to a framework for studying the political power of TNCs. Parts of the theory are built on existing theory and parts are based on my own studies and information from the interviews. This means that the information from the interviewees is not perfectly comparable. I wanted to focus on the interviewees' particular competence areas rather than the comparability of the interview content. The thesis should be used to understand the situation that has been studied and will give an indication as to the existence of truth in the hypothesis. Because of my methodological approach, there is reason to believe that the informants have affected the research and the results may have been different if the research was done at a different time or by a different researcher.

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### 3. Theoretical approach to the relationship between TNCs and home government

TNCs have been studied extensively in economic terms and it is now time to make room for TNCs in political debates as well. Jeff Harrod is of the opinion that the twenty-first century will be the century of the corporation. Harrod argues that “the real source of power of the corporation in the twenty-first century is its increased influence within the governments of key states in the global political structure” (Harrod 2006:29). The growing belief in the increasing power and influence of TNCs on governments creates a demand for research on the role of TNCs. It is only in the past century that explicit attempts have been made to separate public from private, both in theoretical discussions and in practice (Haufler 2006:86). “Globalization undermines the authority of the state and enhances the demand and capacity of firms to produce new forms of private authority in its place” (Cutler et. al. 1999:339). “Global governance typically refers to Rosenau’s notion of ‘governance without government’ (Rosenau 1992:4), presuming the absence of some overarching governmental authority at the international level monitoring and enforcing the activities and interactions governed” (Vormedal 2005:13). Private governance thus refers to institutionalized cooperation between public and private functions.

Crane and Matten (2007:478) differentiate between traditional context (Westphalia setting) on one side, and Globalized context (Post-Westphalia setting) on the other side. States have lost power compared to their previous positions. States are now competing more for the means to create wealth within their territory than for power over more territory (Stopford and Strange 1991). Strange (1992:1) argues that “governments, like academics, must wake up to the structural changes in world politics and pay proper attention to the increasing importance of firms.”

*TNCs are essentially capitalist enterprises. As such they must behave according to the basic ‘rules’ of capitalism, the most fundamental of which is the drive for profit. Of course, business firms may well have a variety of motives other than profit, such as increasing their share of a market, becoming the industry leader, or simply making the firm bigger. But in the long run, none of this is more important than the pursuit of profit itself (Dicken 2003:199 in Bull and McNeill 2007:164).*

It is stated in the documentary *The Corporation* (2003) that nothing is ever enough for a corporation when it comes to profit. *The Corporation* argues that if you cannot make a product in a sustainable way, there should not be room for this corporation in a sustainable world. The largest TNCs have business interests stretching over large parts of the world and gross corporate sales are larger than the GNP of many middle-income countries (Ruud 2001:65). TNCs are seen as players that operate beyond the reach of individual governments, and particularly home country governments. Because of the growing importance of TNCs, the character of international political interaction is changing (Ibid.).

Realism has been the most widely accepted approach to international affairs. It goes as far back as Thucydides who argued that international politics is best studied by looking at interstate relations (Grieco 1988). Waltz (1979) points out that studies ought to focus on the interaction between national governments which seek to maximize national interests in absolute terms. National states have been seen as the only significant decision-making entities. Due to the rise of transnational organized non-state actors and their growing involvement in world politics, the assumption of states as the only important units is challenged. The growing focus on non-state actors such as Shell, Exxon, Amnesty International and Greenpeace started a trend of scholars questioning the teaching of political realism. Keohane and Nye (1977) argued that realism was no longer a comprehensive theory and introduced their alternative theory known as liberal pluralism or complex interdependence. Based on this, Keohane and Nye predicted that states would attempt to use transnational players as instruments to obtain power. Numerous scholarly discussions on this theme have led to a growing consensus that these non-state units have resulted in fundamental changes in international politics. For example, since the Peace of Westphalia in 1648, European society has been built on the basis of the Weberian model of state, where the state has a monopoly over use of legitimate violence. The increasing number of private military companies is an obvious example that challenges the notion of state as the only actor with legitimate use of violence. This phenomenon also challenges the theory of states as the only important actors in international politics (Ruud 2001:67). Based on the work of Susan Strange (1988, 1991, 1996) I will emphasize the belief that TNCs should have a more central role in studies of international relations. Strange (1996:44) points out that “the shift from states to markets has actually made political players of the TNCs.”



States and private actors are increasingly interlinked within a new form of multilateralism, which Bull and McNeill (2007:3) call 'market multilateralism'. Multilateralism describes a system between states. Market multilateralism also includes organizations and private actors. Commercial interests represent enormous invisible power, which in turn leads to a somewhat invisible political influence from TNCs (Farouk 2008; Amoore 2006:49). This makes political actors of TNCs which should be implemented in bilateral relationship between home and host states.

### 3.1 Triangular diplomacy

The growing importance of TNCs can be seen in various academic work.

*Inspired by the work of Kaiser (1971), Perroux (1950) and Sunkel (1973), Stopford and Strange (1991) argued for a transformation of the old, rather bipolar game of diplomacy, where national boundaries defined the rules, to a situation where negotiations and actions are carried out on a more extensive basis. Traditional players in embassies and foreign ministries are still in business, but, according to Stopford and Strange (1991:21-22), have been joined by members of other domestic government ministries and by the executives of firms, both local and foreign. All are now involved in both bilateral and multilateral negotiations, both formally and informally. TNCs and host country bargaining is becoming part of a complex network of a triad of relationships, what Stopford and Strange (1991) termed a 'triangular diplomacy' (Ruud 2001:77).*

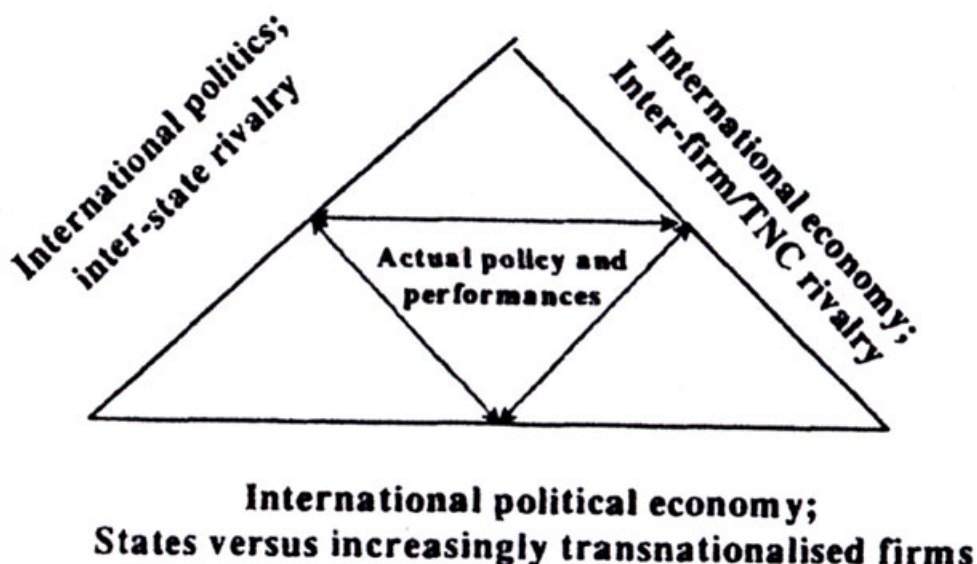


Figure 3.1: International relations as perceived by Stopford and Strange (Ruud 2001:77)

Stopford and Strange (1991:224) focus primarily on the political role that firms increasingly have with host governments. They also argue that a new form of diplomacy is emerging in which home countries are increasingly door openers for companies. They believe companies gain by coming from a country which occupies a strong position in the multilateral system. However, the reverse can also be the case, that company participation strengthens the position of its home country (Bull and McNeill 2007:167).

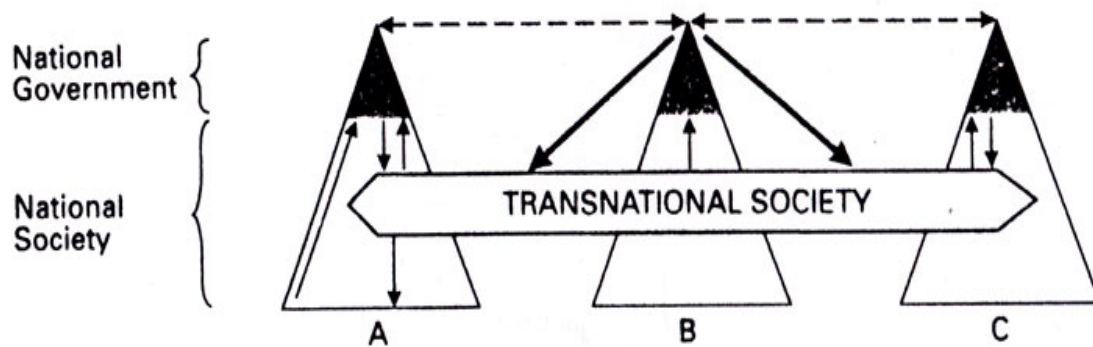


Figure 3.2: Kaiser's diagram (in Stopford and Strange 1991:21)

The arrows in Figure 3.2 indicate attempts by one group to influence the others. The arrows pointing downward indicate coercion and regulation rather than dialogue. The ones that point upward imply some reverse influence of business on government within countries. Kaiser's diagram shows a two-way relationship to indicate that some states have more influence than others over the conduct of international organizations and firms.

It is important to note that the negotiations between state and corporation often take place on highly asymmetric terms. Sometimes one party enjoys the upper hand (Ruud 2001). "TNCs are becoming increasingly institutionalized in external networks. New forms of politically relevant embeddedness evolve. New forms of networking are converting transnational corporate players into what can be termed 'transnational political players', involved in various 'diplomatic' efforts" (Ibid:82). Hveem et al. (2000:26) argue that triangular diplomacy needs more democratic and powerful political governments to ensure that TNCs' economic activity is in accordance with national political targets.

In some cases business is politicized. Gilping (2000) states that TNCs and other transnational non-state agents may still be treated as foreign policy tools at the potential disposal of home

country governments. Hveem et al. (2000: 25-26) argue that there is an increase in the form of cooperation between governments and TNCs which takes place as triangular diplomacy, as described by Stopford and Strange . This type of diplomacy can create agreements between the Norwegian Government, host country and TNCs. When Norwegian society is based increasingly on value creation from Norwegian business actors abroad it is difficult to exercise traditional political control. Triangular diplomacy is more complex and at the same time more realistic. Furthermore, Hveem et al. argue that Kofi Annan's idea about a 'global compact', which was introduced in 1999, makes it even more complicated. The idea was to create a set of agreements about investments for development purposes between TNCs, governments and representatives from civic society in both countries.

*Kofi Annan brought with him an understanding of, and an appreciation for, the private sector that none of his predecessors had ever displayed. His business education constitutes, in and of itself, a radical departure from the traditional governmental diplomatic background of every UN secretary-general before him (Tesner with Kell 2004:2 in Bull and McNeill 2007:8).*

Annan believes that market forces are essential for sustainable development.

### 3.2 Public-Private Partnership

*"The state is to an increasing extent 'de-governmentalized' as it no longer monopolizes the governing of the general well-being of the population in the way that it used to (Rose 1999). As such, the idea of the sovereign state governing society top-down through comprehensive planning, programmed action and detailed regulations is losing its grip, and is being replaced by new ideas about a pluricentric governance based on interdependence, negotiation and trust... In order to compensate the limits and failures of both state regulation and market regulation, new forms of negotiated governance through the formation of public-private partnerships, strategic alliances, dialogue groups, consultative committees and inter-organizational networks have mushroomed (Sørensen and Torfing 2007:3,2).*

PPPs are becoming increasingly more central when studying the relationship between public and private, and especially when studying TNCs' influence on government. PPP has been surprisingly little mentioned in front of elections and the public therefore knows little about it (Hodge and Greve 2005). The UN defines partnerships as "voluntary and collaborative relationships between various parties, both state and non-state, in which all participants agree to work together to achieve a common purpose or undertake a specific task and to share risks

and responsibilities, resources and benefits (UN General Assembly 2005:4 in Bull and McNeill 2007:6).

The phenomenon of PPPs may be seen as one of the many outcomes of what is referred to as 'globalization'. Globalization has many different dimensions. The most significant for PPP is the changes in the scale and pattern of international capital flows, the increase of flows of private capital, and the relative decline in the 'official' flows. The immense development in communication and technology has concentrated power and resources in giant TNCs. It is parts of globalization and the wakening power and authority of the national state, which have made Governments increasingly depend on the private sector for implementation of public goods (Bull and McNeill 2007:45). Hveem et al. (2000:25) point out that TNCs cooperate with national governments both domestically and internationally. TNCs engage in cooperation to influence politics and make sure that political changes do not have a negative impact on them. However, Brinkerhoff (2002:178) argues that the cooperation that is taking place is better described as network governance than PPPs because network governance better captures the variety of interorganizational relations.

### 3.3 Network governance

Specification of the partnership dimensions of mutuality and organization identity serves to better distinguish partnerships as a particular type of network and to identify and support the attainment of their value-added contributions. There have been various contributions and discussions of the terms governance and network. Sørensen and Torfing (2007:9) define governance network as:

*1. A relatively stable horizontal articulation of interdependent, but operationally autonomous actors; 2. Who interact through negotiations; 3. Which take place within a regulative, normative, cognitive and imaginary framework; 4. That is self-regulating within limits set by external agencies; and 5. Which contributes to the production of public purpose.*

This makes governance network differ from the hierarchical rule of the state, and it also differs from the anarchy of the market.

Public-private policy networks are a less formal and more horizontal form of cooperation and governance. The reason for studying governance network is that policy, defined as the

attempt to achieve a desired outcome, is the result of a governing process that is no longer fully controlled by the government. The policy is subject to negotiations between a wide range of public, semi-public and private actors, whose interactions give rise to a relatively stable pattern of policy making that constitutes a specific form of regulation and cooperation (Sørensen and Torfing 2007:4). Government officials and TNC representatives are in an influx network. People in the private sector often start working in the public and vice versa. As a TNC you have to use networks to your advantage to influence relevant actors. The oil and gas industry is especially conscious of the importance of networking. Networks can be seen as the informal, or invisible, interface between private and public.

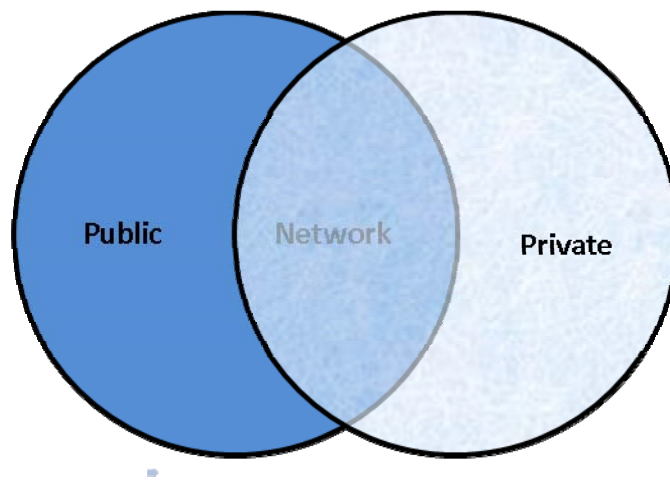


Figure 3.4: Network governance

*Policies are made in complex networks of actors ...because many participants contribute in many different ways, it is difficult even in principle to identify who is responsible for political outcomes and thus to establish political accountability. In particular, limiting accountability to officials seems myopic in modern political systems. Political outcomes are the product of 'many hands' (March and Olsen 1995:158 in Sørensen and Torfing 2007:274).*

Large TNCs can obviously be responsible for one of the hands March and Olsen refer to and is a challenge for representative democracies.

### 3.4 Corporate social responsibility

“The road to hell is paved with good intentions” (Soysa 2008).

Most studies agree that CSR is promoted because it is in the TNC’s own interest, in addition to corresponding to the firm’s norms and values. Milton Friedman, the Nobel-Prize winning

economist, argues that a corporation cannot have a social responsibility. He says that “the social responsibility of business is to increase its profits” (Crane and Matten 2007:43). In the following I will assert that CSR is used by TNCs in their own interests.

CSR is grounded in the thoughts that a corporation has a triple bottom line: economic, social and environmental (Elkington 1998 in Crane and Matten 2007).<sup>7</sup> Carroll (1991 in Crane and Matten 2007:49) presents a pyramid that shows the responsibilities expected by a corporation.



*Figure 3.3: (Crane and Matten 2007:49)*

Furthermore, I present four main corporate strategies related to CSR (Crane and Matten 2007:53; Tulder and Zwart 2006:143-146):

1. **Inactive:** This strategy reflects the classical notion of Friedman that companies are only responsible for generating profit. The corporation denies responsibility for social issues, for example by claiming that social issues are the responsibility of

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<sup>7</sup> Based on these thoughts, Tulder and Zwart (2006:142) presents a Triple-P bottom line consisting three dimensions of CSR; profit, people and planet.

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government. The inactive and defensive strategy focuses on profit maximization and productivity.

2. Defensive: The company admits responsibility but fights. The corporation does the very least that is required from it to avoid making mistakes. It is a belief that a company that does something wrong will be affected by the reputation mechanism. An indication for this approach can be that the company focuses more on public relation campaigns than positive action.
3. Active: This strategy involves accepting responsibility and pursuing ethical values so that the company's activities are in accordance with its stated values. This approach is also chosen because it will give the TNC a good reputation and therefore lead to economic gains.
4. Proactive: The corporation seeks to go beyond industry norms and anticipate future expectations by doing more than is expected. A proactive approach is characterized by undertaking activities aimed at pleasing external stakeholders.

Crane and Matten (2007) argue that business ethics begin where the regulation stops. They define government as all legislative and executive bodies that act on the basis of parliamentary consent. In addition, they define regulation as “rules that are issued by governmental actors and other delegated authorities to constrain, enable, or encourage particular business behaviors. Regulation includes rule definitions, laws, mechanisms, processes, sanctions and incentives” (Ibid:458). There has been a focus on creating guidelines and standards that TNCs should follow. If TNCs create rules and guidelines for their work it will put pressure on the rest of the industry. TNCs tend to seek less regulation and say, for example, that the market forces will lead to more investments on renewable energy because of the high oil prices. However, Beate Sjøfjell (2008) argues for the need for regulation and an active government. It is not sufficient that companies secure profit before they start to think about acting in a sustainable way. There are some signs of stricter regulation for TNCs, but it cannot yet be described as a trend. There are few laws concerning CSR in Norway. One exception is the prohibition to contribute to corruption, which was implemented in 2003. In addition, the stock exchange law requires that companies publish reports on the environmental consequences of their activities and the actions that are taken to limit those consequences (PCC 2008:69).

Market power does not automatically give political power, but can, under certain circumstances, transfer into political power (Hveem et al. 2000). Norwegian society has been characterized by cooperation between different actors involved, such as the Government, public institutions, labor unions and private actors. Hveem et al. question if this model has been weakened. According to Strange's (1996) thoughts about corporations taking the leading role and the weakening of the state, Linda Weiss (1998) presents the theory of state as just a service agent for firms. Firms have been built up, by the help of government, and are now too big for governments to control. Some go as far as saying that "corporations rule the world" (Korten 1995 in Fuchs 2007:43). Although there has been international variation, the 1990s was distinguished by large-scale privatization, de-regulation and liberalization (Tulder and Zwart 2006). The theory of the receding state is illustrated in figure 3.4.

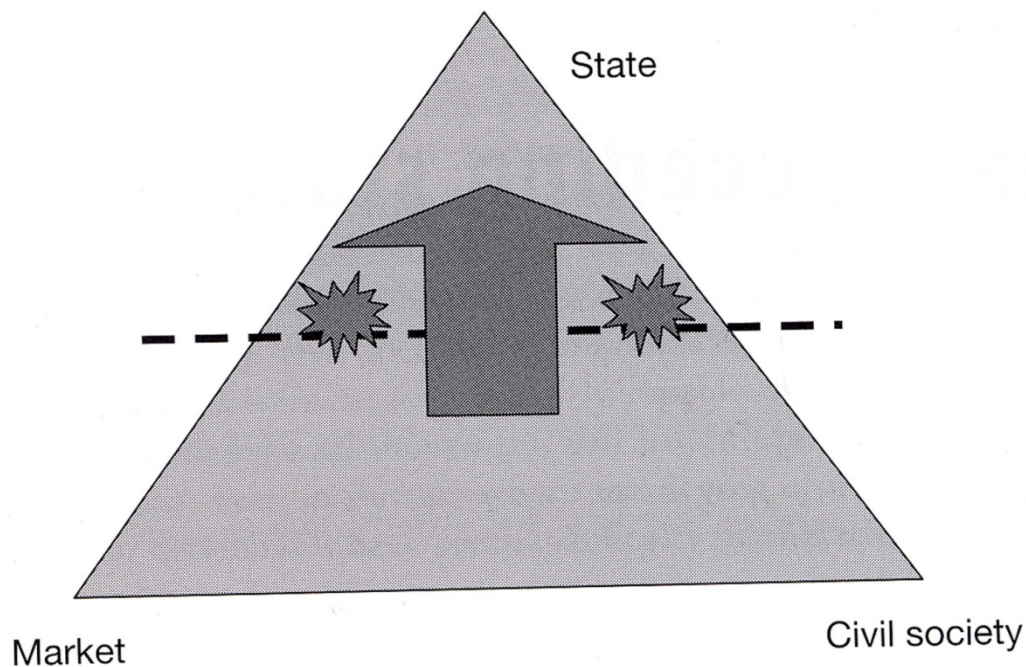


Figure 3.4: (Tulder and Zwart 2006:74)

TNCs can be seen as increasing their role because of CSR. All this theory on the role of TNCs in different settings in international politics creates the basis for how one can imagine the power of TNCs will influence home country government.



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### 3.5 A framework for analyzing TNCs' power

Fuchs' (2007:4) work shows "that business clearly has become a pivotal political actor". All parts of society influence politics and it is therefore natural that private business influences politics.

*Claims about a lack of significant influence of business on politics advanced by a small but persistent group of scholars and practitioners need to be met with scepticism. At the same time, however, undifferentiated claims of corporations ruling the world, advanced by a continuously growing group of writers, fail to capture the complexities of current developments in the role of business in global governance (Fuchs 2007:4).*

Fuchs' (2007) uses three dimensions of power to study TNCs relation to home government: instrumental, structural and discursive power. This classification makes it difficult, if not impossible, to separate between the different dimensions. Fuchs says that the dimensions are overlapping and that some topics will have an effect through more than one dimension. Structural and discursive powers are the most overlapping dimensions. Fuchs (2007:165-166) points out that "the three dimensions of power can be mutually reinforcing, they also can be mutually constraining". In general, Fuchs' work concludes that business has indeed gained political power and increased its capability to influence political outcomes (Ibid:169). I argue that Fuchs analyses, to some extent, straddle different levels. I am of the opinion that discursive power is not on the same level as instrumental and structural power and will have an effect on the other power dimensions rather than being a separate dimension.

Further, it is important to clarify my use of the concepts of power and influence. Vormedal (2008:44) argues that while power and influence are intimately linked concepts, it is possible to distinguish between them. For example, influence can be defined as a relationship resulting in a modification of one actor's behavior by that of another, whereas power refers to capability, that is, the spectrum of power resources and power activities available to actors. I choose to study TNCs' power based on the assumption that power can form the basis of influence. Contrary to Fuchs, I categorize TNCs' power according to two dimensions, or sources, of power influence: power resources and power activities. TNCs' discursive power will be dealt with in each of the dimensions. To operationalize power I have chosen the two mentioned dimensions. If the empirical findings correspond to the theory, the hypothesis will be strengthened. My operationalization of power is described below.

### **3.5.1 Power resources**

A structuralist approach to global governance suggest that the owners of capital exercise power over state managers, in that they are able to shape the context in which states make decisions (Newell and Levy 2006:172). In general, the impression is that business has expanded its power by becoming an active rule and agenda setter (Ibid:170). TNCs can determine issues, define problems, control research, and design, adopt, implement and enforce `solutions´ themselves (Fuchs 2007:104). Fuchs (2007:132) stresses three reasons why the increase in rule-setting activities by business actors matters from a power-theory perspective. First, the exercise of power by TNCs by designing and implementing these norms, standards and rules affects the rest of society. Second, the rule-setting activities influence employees and consumers and therefore society. Third, rule-setting may prevent or undermine more stringent and effective rule-setting by government and public actors.

TNCs actively use their superior knowledge and resource position. This is due to governments´ structural dependence on economic growth, employment and investment (Fuchs 2007:105). “The growing role of knowledge-intensive production and innovation-based competition has furthered the importance of knowledge relative to capital as a basis of structural power, which in turn is largely `owned´ by corporations” (Mytelka 2000 in Fuchs 2007:107). Governments´ dependency on TNCs´ technology and experience is a power resource for companies. Technological power also strengthens TNCs´ discursive power.

Discursive power deals with TNCs´ ability to influence policies and the political process through the shaping of ideas and norms in society. Discursive power relies on persuasion, the perception of legitimacy, and voluntary compliance (Fuchs 2007:64). Fuchs argues that business holds an advantaged position in the competition for discursive power due to its preponderance of resources (Fuchs 2007:154). Discursive power is important because of its ability to be preceding interest formation and because it is a diffuse, pervasive, and socially comprehensive power. Discursive power is the least researched dimension of business power in global governance. In addition to the superior knowledge held by TNCs, the biggest TNCs have access to more resources than many small countries. This includes both economic and human superiority and builds on the argument by Stein Rokkan (1987) that votes count, but resources decide.

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Power resources also involve the privatization and the expansion of business to the extent that business is taking over tasks previously provided by governments. Business is being trusted to carry out tasks previously considered to be the domain of the government (Fuchs 2007:64).

### **3.5.2 Power activities**

Activities directed towards decision makers can give TNCs power to influence. Power activities can be defined as activities which render probable influence on the political system. This can, for example, be exercised through lobbying, networking, campaigns and party financing (Fuchs 2007:8). Fuchs (2007:78) states that there has been an increase in political mobilization from TNCs. She says that the “increasing willingness of business to be involved in politics has been paralleled by improvements in access granted by politicians and bureaucrats, whose dependence on resources and inputs from interest groups in general and business actors in particular has risen” (Ibid.). For example, “business is frequently the predominant voice on advisory committees and delegations today” (Ibid:79). Business representation in political delegations is becoming the norm and has turned into an arena of significant potential for TNCs to execute power.

Lobbying is a central channel where TNCs have power. By using national, transnational and supranational activities TNCs can increase their power over policies, politicians and bureaucrats. Lobbying is a way of informing and at the same time persuading government representatives (Crane and Matten 2007:466-468). The traditional scholarly definition of lobbying is given by Lester Milbrath (in Fuchs 2007:71): “Lobbying is the stimulation and transmission of a communication, by someone other than a citizen acting on his own behalf, directed at a governmental decision maker with the hope of influencing his decisions”. TNCs usually have a large budget for lobbying because it is perceived as important. Politicians also use the lobbyists actively to get hold of information in an easy way. Lobbyists can use their expertise to warn politicians of effects of different types of political decisions. In most countries in which a regulatory framework for lobbying exists, direct attempts to exchange money for political favours would be illegal (Fuchs 2007:72). There is limited research on lobbying in Norway.<sup>8</sup> Interest group politics in the United States are much more visible, documented and researched than in other countries, but one cannot necessarily generalize from the US case (Ibid.). Inputs to political documents are also a form of power activities. It

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<sup>8</sup> For an overview see Gulbrandsen (2008).

is a way for decision makers to hear all affected parties' views and at the same time TNCs can argue for their cause. In addition to these activities directed towards the political system, TNCs have practices which give some sort of discursive power.

Himmelstein (1997 in Fuchs 2007:146) argues that corporations struggle between 'looking good' and 'doing good'. To look good, business communicates its societal achievements as a corporate citizen. This contributes to the popular perception of a certain identity of business actors. This communication adds legitimacy to TNCs' self-regulation and is therefore also increasing legitimacy of TNCs as political actors (Fuchs 2007:8;148).

*While discursive power can thus be a particularly strong source of influence, it simultaneously is the most fragile dimension of an actor's power as well as the most dangerous one if undermined. A decline or disappearance of a business's political legitimacy would not only lead to a dramatic reduction in its discursive power but cause challenges to its rule-setting and instrumental power as well... The precariousness of the situation becomes clear when one considers how vulnerable the discursive power of business actually is (Fuchs 2007:148).*

In addition to these challenges, the change in dominant societal norms and ideas affects the social context where the discursive power is embedded (Ibid.). TNCs are expected to be using political communication to shape policy and actor-specific, as well as broader societal norms and ideas. The ability to buy media space and time have led TNCs to spend huge sums of money on commercial campaigns, with the objective of convincing the public that they are good citizens (Ibid:150-151). The discursive power of a company builds on its structural power position and increases the company's power through persuading and convincing the relevant actors.

PPP is an example of an avenue where business can exercise power that increasingly involves active rule-setting power (Fuchs 2007:104-105). Fuchs (2007:113) argues that "under less promising conditions, public-private partnerships are unlikely to provide much progress toward the effective pursuit of public objectives and in the worst case would allow the utilization of public resources in the pursuit of private interests". In PPPs, business actors can participate in the implementation process of the home government's policy. "If business loses its legitimacy as a political actor in the eyes of the public, self-regulation, for instance, will become very difficult to justify" (Ibid:148). Aware of this vulnerability, business

actively engages in efforts to secure and increase its political legitimacy (Ibid:167). TNCs are expected to be enhancing the perceived legitimacy of PPPs and self-regulation. TNCs promote CSR and use the CSR label to gain legitimacy in society. However, critics argue that CSR is characterized by vagueness and heterogeneity and therefore provides little evidence of a systematically improved environmental and social conduct of companies. The vagueness and heterogeneity make assessments of performance difficult, which diffuses possibilities for evaluation and criticism. Through participation in self-regulation and PPPs, business has power over the policy process by deciding the focus area, the actual design and implementation (Fuchs 2007:64).

These two sources of power indicate clear empirical expectation about what will indicate that StatoilHydro has power and uses this power. To analyze StatoilHydro's power through these dimensions it is important to learn more about the company and its role in society.

## 4. StatoilHydro

“This industry deals with natural resources and has a very long-term perspective. The industry has considerable spin-off effects on society. This makes it very close to the interface between politics and economics” (Source in StatoilHydro (7)).

The privileged role of Statoil had been a cornerstone of Norwegian oil and gas policy since the company was established in 1972 (Claes 2003:54). Claes (2003) points out the special characteristics of oil as a strategic commodity. Therefore, National Oil Companies (NOCs) have had a strategic role for their home country. The oil industry has gone through phases of structural changes. In the 1950s and 1960s the ‘seven sisters’ controlled more than 90 percent of the world’s oil reserves and production. In this period the role of state owned companies was minimal. During the 1970s, all that changed, and NOCs grew stronger. Many oil-exporting nations have established state owned companies in order to better control extraction, production, and export of oil and gas reserves. By doing this, states have reduced the dependency on International Oil Companies (IOCs). No industry can be compared with the size and power of the oil industry. This sector contributes to large parts of Norway’s income, a value creation which creates the basis for the power of the Norwegian oil industry in general, and StatoilHydro specifically (25). Two-thirds of the Oslo stock exchange is involved in the oil and gas industry (Foss 2008).

In 1984 the Norwegian oil sector was reorganized and the role of Statoil was reduced. In 2001 Statoil was partly privatized, but the Norwegian oil sector still had to be seen as highly state-regulated. Statoil wanted a part-privatization to be able to engage in long-term alliances with IOCs. “A premise for privatizing Statoil in 2001 was that the company should have a national foundation with headquarters, research and strategic decisions taken in Norway. Beyond this the privatized Statoil should have commercial independence” (PCC 2008:60). For a long time, the industry was built up by Statoil, Hydro and Saga Petroleum. Statoil joined Hydro in taking over Saga and the mix of state owned, semi-state owned and private was abolished. As late as 1998, the Minister of Oil and Energy expressed the Government’s wish to have three Norwegian oil companies. Because of the part-privatization in 2001, a new state owned oil company, Petoro, was set up to manage the state’s interests in the Norwegian oil and gas fields. Petoro is a holding company and Statoil continues to operate the sales of Petoro’s physical oil and gas reserves (31). The idea behind dividing Statoil and

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Petoro, was to give Statoil a role as an IOC and avoid it having a political role (Olsen 2008). The State's Direct Financial Interest (SDFI) was created because Statoil's political role was too dominant (Storeng 2008). The state participates as a direct investor in oil and gas activities on the Norwegian Continental Shelf (NCS) through SDFI. The state owned limited company Petoro AS manages the SDFI (MPE 2008c).

Historically, the Government gave the most attractive oil fields to Norwegian companies. These privileges should have made sure that the two companies realized political goals which were in the best interests of Norwegian society (Ryggvik and Engen 2005:20). "The merger of Statoil and Hydro is an example of a trend in NOCs, that they are growing bigger and more powerful" (Sjøgren 2008). The campaign for partly privatizing Statoil and the merger of Statoil and Hydro were both done with the objective of internationalizing StatoilHydro (Storeng 2008). Internationalizing StatoilHydro has been a target for the last ten years. "We are, as a matter of fact, living in the real world. Of course it is in Norway's interest that StatoilHydro is an international company... We are playing on the same team" (Norwegian ambassador (28)). However, most informants argue that the "interests on the NCS would have been better taken care of with Hydro and Statoil separated" (source in OLF (25)).

Statoil would probably have disappeared without the deprivatization and internationalization. The oil and gas reserves on the NCS are not enough for StatoilHydro. "The big elephants in Norway are found" (Sjøgren 2008). The oil cluster in Norway is dependent on internationalization (31). The objective of internationalizing the Norwegian oil and gas industry has been that StatoilHydro should take the leading role and make way for the supplier industry. However, the suppliers that have internationalized have had little help from StatoilHydro (25). It is argued that StatoilHydro is too little engaged in bringing the Norwegian supplier industry with them (34). This is part of a trend where there is a swing from the oil companies being the most powerful and with the most competence to a situation where the supplier industry has more competence and knowledge power (Hansen 2008). An important internationalization event happened in 1997 when INTSOK was established. INTSOK was created by the MPE, the MFA and the Ministry of Trade and Industry (MTI), and the participants from industry were Statoil, Hydro, the Confederation of Norwegian Enterprise (NHO), Rederiforbundet and the Norwegian oil industry association (OLF). Rolf Magne Larsen, former director of Statoil's international division says that Statoil was the

major promoter of the work with INTSOK (in Salvesen 1998). INTSOK seeks to promote international expansion by creating arenas, dialogue, and giving market and project information.<sup>9</sup>

Norway holds a competitive advantage in the petroleum industry, which accounts for one-third of total Norwegian outward FDI. FDI in the petroleum sector has risen from NOK 87,408 million in 1998 to NOK 216,755 million in 2005, an annual growth rate of 13.9% (Hveem et. al. 2008:4). More than 50% of StatoilHydro's investment in 2006 was in the international arena (PCC 2008:98). In 2008, some 20% of StatoilHydro's income is from the international arena. The suppliers and contractors already derive more than half of their income from outside Norway (Lunde et. al. 2008:115). Internationalization has an obvious positive effect for the different companies. However, if Norway wants to develop an international oil industry, we need to be prepared to get dirt on our hands (Gjelsvik 2008).

With the uncertainty in the energy market, the petroleum companies increasingly get a political mandate. In addition to making money, the oil companies must secure oil and gas supply for their home country. Additionally, it is an advantage for an oil company to come from a politically and militarily strong country so that the host country can benefit from the power of the home country. This is an advantage for companies from the USA, Great Britain and France. Norway's comparative advantage is that it is seen as a socially democratic country, a peace enforcer and a supporter of developing countries through the UN. Politicians in developing countries will therefore benefit from being associated with Norwegian politicians (Ryggvik and Engen 2005:12-14). Before analyzing how StatoilHydro's power can influence the governmental decision to promote StatoilHydro as a Norwegian agent in realizing energy and climate initiatives in Brazil, the next chapter will give an account of Norway's and StatoilHydro's activities in Brazil.

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<sup>9</sup> INTSOK will be accounted for in 5.5.2.





financially supported by the Norwegian Government and how StatoilHydro is promoted in Brazil as an agent of Norway's energy and climate policies.

## 5.1 History

Brazil's history is characterized by unstable political and economical conditions. This has changed, however, and today Brazil is seen as a stable democracy with a growing economy that has a good long-term outlook. Brazil still has its problems, especially regarding social inequality, but it is developing in the right direction. The country's Gini coefficient, which measures social inequality, is going down for the first time, which indicates that the differences between rich and poor are becoming smaller (Ferraz 2008).

Norwegian companies have been present in Brazil for many years. Norway has an embassy in Brasilia and a consulate in Rio de Janeiro. The governments of the two countries are both in the socialist party family. The formal bilateral cooperation between the countries has increased rapidly from 2003, when King Harald made an official visit to Brazil. This visiting party included a large delegation of business representatives. Since King Harald's visit, there have been several political delegations to Brazil. The latest one was led by Prime Minister Jens Stoltenberg, who represented Norway at the Rio Oil and Gas exhibition, the largest industry event in Latin America, and made a pledge to contribute to the Brazilian rain forest fund. During the same delegation the two countries signed a Memorandum of Understanding (MOU). It states that the two countries will cooperate on issues including deforestation, application and transfer of clean technology and on sustainable development (MOU 2008). StatoilHydro would like the Government to sign MOUs to secure Norway's cooperation with Brazil (14). Furthermore, Brazil has also sent delegations to Norway, including President Lula, Petrobras, members of its oil administration and others. Norway has also financed a visit to the Norwegian petroleum directorate for the Brazilian Government and Brazilian organizations (Hippe 2006). At the same time, the labor unions in Statoil (SAFE/YS) financed a visit for Brazilian oil workers. Norway can teach the importance of dialogue between different actors and there has been an initiative through the MFA and the NHO to start a Norwegian-Brazilian forum for social dialogue (Araldsen et. al. 2006).

Together with Sweden, Brazil is one of the nations leading the work on CSR by creating new standards and guidelines for through the international standard organization (ISO) (Hippe 2006). The ISO has created ISO 14000, for the environment, and ISO 26000 for CSR. These

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standards are developed by TNCs, NGOs, CSOs and governments (Crane and Matten 2007:493). The StatoilHydro community project 'Na Trilha do Peregrino' helps raise skill levels in communities near Peregrino, while the School of Waters in the Low South Bahia area will help teenagers with oyster farming and fishing, horticulture, IT education, business knowledge and capoeira (15). This project could have some positive long-term effects for StatoilHydro because the education level near Peregrino will increase. However, this education program is not directed towards StatoilHydro's need for competence and is therefore better understood as philanthropic initiatives. The CSR profile promoted by StatoilHydro's base organization is directed more towards demonstrating that the company has a special responsibility and that they take responsibility by, for example, being more environmentally friendly than other companies. In this case, StatoilHydro's CSR strategy is both philanthropic and reputation-related on the project level and mostly reputation-related at the centralized level. CSR is undoubtedly a focus area for StatoilHydro and their CSR strategy is much discussed and disputed. I argue that StatoilHydro's CSR approach can be described as in the interface between defensive and active CSR strategy, maybe leaning more towards an active CSR strategy according to the classification in 3.4. It can also be argued that StatoilHydro has a proactive approach to CSR because it is seen as a leading actor in CSR. However, StatoilHydro has on several occasions acted contrary to the desires of Norwegian Government, which is an important external stakeholder. This can be illustrated, for example, by StatoilHydro's attitude towards involvement in environmentally disputed projects.

Brazil is Norway's most important trade partner in Latin-America. From 2000 to 2007 there has been a doubling of imports and exports between the countries. The increase in Norwegian exports is mostly due to the oil sector, although most supermarkets also sell Norwegian bacalao (dried, salted cod). Norwegian business investments in Brazil from 2000 to 2006 are estimated at around NOK 15 billion. The main investors are Norsk Hydro in Alunorte, StatoilHydro, Norse Energy, DNV, Norske Skog, Jotun and Mustad (Araldsen et. al. 2006).

The Brazilian oil findings in the last few years have given rise to a new positive attitude to nationalization such as the "O petróleo é nosso" – "the oil is ours" era when Petrobras was established (Giæver 2008). Brazil has decided to invest time and thought into how they are going to administrate its oil resources. The Brazilian Government is considering using a

Norwegian-based model with a company similar to Petoro in addition to the main Brazilian energy company Petrobras (35). Petrobras is 40% owned by the Brazilian Government and is on the stock exchange in the USA. It is substantially more affected by political governance than StatoilHydro and President Lula has the power to instruct Petrobras. Following election, the new President chooses the CEO of Petrobras. Lula's influence on the governance of Petrobras could make the company prioritize Brazilian interests over commercial interests (14). In September 2008, Jens Stoltenberg explained the organization of the Norwegian oil industry to Brazilians. The Brazilian Minister of Oil and Energy, Edison Lobao, believes Norway has a lot to offer the Brazilian oil industry (29). President Lula also welcomes the Norwegian model, particularly as regards the creation of a state owned company like Petoro (1).

## 5.2 The Brazilian 'moon landing'

Brazil has long been known to be of great importance when it comes to studying energy and climate. In 1990, Rivedal and Tranøy (1990:1) stated:

*Brazil is of particular interest when discussing CO<sub>2</sub> emissions and climate change. The country has huge potential for much greater energy consumption: it has natural resources for far larger industrial production than that carried out today, it has technological skills for economic expansion and the country has a large population, which constitutes a sizeable domestic market.*

The extent of Brazilian energy production has been similar to that of Norway. However, Brazil will have substantially higher production in the future, while Norwegian production will decrease. In 1997, the Brazilian oil and gas market was opened up to international actors. StatoilHydro writes that Brazil "has demonstrated that it has large resource potential and an attractive and stable investment environment" (StatoilHydro 2008). Brazil has found large numbers of new oil and gas fields in recent years, which Stoltenberg refers to as "Brazil's moon landing". It is estimated that Brazil probably has ten times more oil resources than remain on the NCS. Last year's finding of oil makes Brazil one of the biggest and most important oil provinces in the world. The CEO of StatoilHydro, Helge Lund, has said that Brazil now looks the same as the North Sea did 20-30 years ago, which makes him believe there are great opportunities in Brazil (journalist (29)). The gigantic findings are localized in places with more than 2,000 meters' water depth, which makes accessibility difficult. This is a competitive advantage for the Norwegian oil industry because they have extensive

experience of working with difficult offshore projects on the NCS (Giæver 2008). In addition to the challenging water depths, the Presalt oil fields are 2,000 meters below a burning hot, unstable layer of salt, demanding high competence levels to deal with the conditions. The cost of producing the oil is estimated to be around USD 40-50 per barrel (Ibid.). Brazil has the potential to become the most important market for the Norwegian offshore industry. Stoltenberg says that Norwegian companies have already agreed contracts equal to NOK 60 billion (in Halvorsen 2008). Petrobras has found nine large oil fields in the last couple of years. Most of them are situated in the Santos-basin, 250 km off the coast of Rio de Janeiro. The most famous are Tupi, Jupiter, Bem-te-vi and Carioca, which together contains some 50-80 billion barrels of oil (1). Tupi is the largest and is estimated to hold some 8 billion barrels of oil, equivalent to twice as much as the Ekofisk field in the North Sea (1). In addition to Norwegian oil interests in Brazil, Norway has made considerable investments in deforestation.

StatoilHydro (7) explains that licenses for oil and gas exploration in Brazil are given to the company that makes the highest bid. The process is broadcast on national television and the envelope with the highest bid gets the license. In Norway the licensing process involves an evaluation of the entire application to ensure a longer term perspective on resource exploitation. The Brazilian process is more commercial to avoid corruption. Therefore, the home country of the company does not affect the process to any extent (7). Although relations and networks do not lead to concessions in Brazil, they are still important. INTSOK emphasises the important role of the Norwegian Government as a door opener (14). Petrobras is by far the largest Brazilian oil company and operates 80% of the oil and gas activities in Brazil. It is therefore the main target for Norwegian companies with an interest in Brazil (14). StatoilHydro hopes that Petrobras will bring StatoilHydro with them when they are bidding (14). The most challenging parts of the Brazilian system are the regional tax system and the demand for local content. Brazil demands that oil companies use 40% of investments to buy goods and services from Brazilian companies (WIR 2007:168). It is also the norm in Brazil for companies to contribute to the local community (7).

### 5.3 Deforestation

“Norwegian – Brazilian cooperation has a positive spill-over effect on Norwegian business” (source in MFA (26)).

The Norwegian rain forest initiative has promised USD 1 billion through 2015, depending on the success of the project. The agreement was signed by Stoltenberg and Lula da Silva on 16 September 2008 (OPM 2008). This is said to be the most effective Norwegian CO<sub>2</sub> reduction project because it has negative CO<sub>2</sub> emissions. The Norwegian initiative in Brazil could reduce CO<sub>2</sub> emissions by as much as half of Norway’s annual emissions level (Farsunds Avis 2008). It is said that 20% of the total CO<sub>2</sub> emissions in the world are due to deforestation of rain forest (URL 2) and one-third of all the rain forest in the world is found in Brazil. The Brazilian forest director, Tasso Rezende de Azevedo (2008), visited Oslo on 30 May 2008 and presented the rain forest fund to the Norwegian Agency for Development Cooperation (Norad). He pointed out that an extensive surveillance system has been developed which makes it possible for contributors to have full control. Tasso also pointed out that the money will follow the principle of “performance-based pay”.

The rain forest initiative shows that Norway values Brazil and can be seen as an extremely beneficial project for other Norwegian businesses in Brazil. The MFA (26) says that Norwegian business interests are not involved in the decision to focus on the rain forest in Brazil. There are no indications that StatoilHydro has lobbied for this project on deforestation. However, MFA believes the rain forest initiative has an unintended positive side effect for Norwegian business interests. Ryggvik (2008) points out that the initiative will indirectly secure more oil production for StatoilHydro in Brazil. He argues that the initiative should never have been initiated because of issues arising from conflicting roles. Furthermore, Ryggvik has problems accepting that a climate initiative indirectly leads to more oil exploitation opportunities for StatoilHydro. He suggests that the rain forest funding could, for example, have gone to Ecuador, where there is less Norwegian business interest and the rain forest is on top of an oil field. This situation can be compared to the situation with oil exploitation in the North of Norway, such as Lofoten, where it is difficult for oil companies to get access to the oil. The Ecuador example would have been a rain forest initiative with a double climate effect, because it would reduce deforestation and also the production of oil.

It has been said that rain forest initiatives are an easy option because one does not need technology to stop cutting down the forest. This is an analogy that can also be used in the oil industry. There is no need for technology to stop exploiting oil (Gjærum 2008). The comparison is weakened because of the very different characteristics of the two resources.

#### 5.4 StatoilHydro in Brazil -“O petróleo é nosso”

With the estimated production, StatoilHydro will probably be the largest international oil company in Brazil by 2012, with Petrobras being the only company producing more than StatoilHydro (source in StatoilHydro (35)). StatoilHydro works closely with Petrobras, which also has its main office in Rio (1). At an INTSOK event in Stavanger, Petrobras and StatoilHydro delivered a joint presentation about the benefits of working closely together. As already mentioned, StatoilHydro has a close relationship with Petrobras underlined by recent agreements on technology sharing, commonality of NOC values, and international growth ambitions. StatoilHydro’s environmental credentials and heritage as a Norwegian NOC help position the company as an attractive partner for the Brazilian Government. StatoilHydro Brazil is a Brazilian company, a legal entity of StatoilHydro ASA (14). The Managing Director of StatoilHydro Brazil, Jorge Camargo, is a former employee of Petrobras and has also worked for StatoilHydro in Stavanger.

StatoilHydro currently own a 50% stake in the Peregrino field off the coast of Rio de Janeiro and holds seven exploration licenses. In the 8<sup>th</sup> Bid Round in 2006, StatoilHydro was awarded three additional exploration blocks. The contracts on these blocks are still to be signed (StatoilHydro 2008). StatoilHydro’s 50% stake in the Peregrino field is as an operator in the project development phase. The other stakeholder, Anadarko, is an operator in the project execution and production phases. However, there will probably be changes. “StatoilHydro and Anadarko signed an agreement on 3 March 2008 whereby StatoilHydro will take over the remaining 50% of the Brazilian Peregrino project. The transaction is pending governmental approval” (Ibid.). StatoilHydro will probably be a 100% operator of Peregrino. The first phase of the development of Peregrino includes two drilling and wellhead platforms and a ship-shaped floating production, storage and off-take unit (FPSO) to minimize environmental impact. StatoilHydro (2008) estimates that recoverable resources are in the range of 300-600 million barrels of oil. The first oil is expected in December 2010, and production should reach its plateau of 100,000 bbl/day within the first year. It is

expected that Peregrino will produce oil for 40 years (source in StatoilHydro (35)).

However, Peregrino is a small field compared to the new discoveries that have been made in the last few years. The most important thing for StatoilHydro is to get into these new fields (14). The Peregrino field should demonstrate StatoilHydro's heavy oil and reservoir management skills, which have doubled initial estimates of recoverable reserves.

StatoilHydro's subsea and deepwater capabilities, its expertise in complex gas chain technology, its NOC heritage, and a strong environmental record combine to position the company competitively in helping access Brazil's abundant hydrocarbons reserves.

#### Facts about StatoilHydro's licenses in Brazil

StatoilHydro holds acreage in promising areas such as the mature Campos Basin and the frontier Santos and Camamu-Almada Basins. Most licenses are located in deepwater areas, reaching water depths of up to 2,700 meters. There are five areas where StatoilHydro is involved (StatoilHydro 2008):

1. The acreage in the Santos Basin lies in about 450 to 2,000 meters of water. In the 8th Bid Round in 2006, Hydro was awarded three blocks in the Santos Basin, bidding together with Petrobras and Repsol. StatoilHydro is the operator of block S-M 1233 with a 40% interest. StatoilHydro holds 30% in the other two licenses.
2. The Jequitinhonha Basin is at the southern end of Brazil's continental shelf. It is located in 1,000 - 2,500 meters of water. A 40% holding in license BM-J-3 was awarded to StatoilHydro in the fourth licensing round of 2002. Petrobras is operator for the block, with a 60% interest, and the partners are committed to drilling two exploration wells.
3. The fields in the Espirito Santo Basin lie in approximately 2,500 meters of water. StatoilHydro was awarded 40% of deepwater block BM-ES-594 in the 7th licensing round of October 2005. Petrobras is the operator with 60%.
4. Campos Basin is one of the few shallow water interests of StatoilHydro in Brazil. It is in sea depths of around 100 meters. StatoilHydro was awarded a 50% interest in deepwater block C-M-539, located in about 2,500 meters of water in the Campos Basin.
5. In the Camamu Basin water depths vary from 1,700 to 2,700 meters. Acreage BM-CAL-7 is divided between StatoilHydro and Petrobras with 40% and 60% stakes respectively. In BM-CAL-10 the stakes are the opposite. The partners are required to shoot seismic and drill an exploration well in both acreages. StatoilHydro has 100% in BM-CAL-8.

These are all oil fields and it will therefore not be possible to use the CCS technology that the industry wants to promote internationally. However, CCS can be of importance for



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Brazil, independent of StatoilHydro's activities there (30). Brazil is not against the use of CCS (23). It is, however, the largest opponent of making CCS part of the CDM. Brazil and other countries in opposition argue that "CCS technologies are being pushed too fast in view of the many uncertainties, their limited geographical application and the risk that an increase in CCS project activities would divert investments from renewables" (Vormedal 2008:53).

StatoilHydro also has a renewable energy division, but there is reason to question the substance of it given its very small size compared to StatoilHydro as a whole. StatoilHydro needs a new initiative to counterbalance its heavy oil production in Brazil, in order to improve its climate profile. It sees bioethanol as a possible solution (27). Ethanol is one of the few products that can be used instead of oil. Cooperation with the Norwegian owned bioethanol producer UMOE BioEnergy may therefore be one way of adding more substance to StatoilHydro's focus on renewable energy. StatoilHydro (2007) is also interested in collaborating with Petrobras regarding bioethanol. However, the oil industry is very profitable and renewable energy projects are not very attractive because their profitability is much lower than that of oil. Profitable renewable energy projects may therefore be dismissed because the gains are too low compared to the rest of the companies' projects (Ryggvik 2008b).

## 5.5 Governmental support

StatoilHydro receives substantial political and financial support from the Norwegian Government. Naturally, StatoilHydro has a close relationship with the Norwegian embassy (38). The promotion of Norwegian business interests is positive, but it can be contradictory to other Norwegian political targets. It seems that business interests are as important to the embassies as other policy areas and an implication from promoting StatoilHydro could be that Brazil sees the company's activities as a reflection of Norwegian activities in general. The embassy's role creates a lack of separation between public and private because it is the duty of every ambassador to promote relevant Norwegian business interests (34). Moreover, StatoilHydro has historically had some influence on Norwegian embassies and possibly also on the appointment of ambassadors that were seen as the most suitable in promoting StatoilHydro (source in INTSOK (14)). However, there are no signs of that being the case in Brazil. In addition to the Norwegian embassy, the Norwegian political delegations and INTSOK are the most important actors for StatoilHydro in Brazil. All of these actors promote StatoilHydro's climate profile.

### **5.5.1 Business representation on political delegations**

If the Government is involved in investment in one country it can lead to several political delegations. It has been typical for Norway to involve relevant business actors in political delegations. This creates a situation where the Government has dual role. On one side they are the non-profit aid donor and on the other side they are promoting profit-seeking industry. It is a pedagogic challenge to explain how Norway operates in Brazil. Norway has a totally different system than Brazil, especially concerning StatoilHydro and Petrobras (26).

Representatives from the Government and representatives from StatoilHydro are perceived as being one and the same (30). These delegations are extremely important for companies, especially StatoilHydro. It is important for StatoilHydro to create a network of people that they know and can do business with in the long run. "It is totally vital to have a network with access to the right people and decision makers. A face-to-face relationship is especially important in Latin-America" (source in MFA (26)).

Participation by StatoilHydro in many delegations shows that the company has convinced the political community that it is in Norway's interest that StatoilHydro is represented. StatoilHydro can contact the office of the Prime Minister (OPM) to convince the Prime Minister to accompany them to relevant events, such as Rio Oil and Gas. Representatives from StatoilHydro point out that if a minister goes to Brazil he would expect to meet with his Brazilian ministerial counterpart. Furthermore, when the King of Norway was in Brazil he met with the Brazilian President. Therefore, if the CEO of StatoilHydro is invited to participate in such a delegation, he will expect to meet with the CEO of Petrobras. This is an important door opener because they then meet their business partners with representatives from the highest level and they also come into contact with government representatives in Brazil. The industry actors use these delegations to gain market access by meeting customers and clients. StatoilHydro was represented by Helge Lund on the delegation that went to Brazil in September 2008. The Norwegian delegation had meetings with the CEO of Petrobras, Sergio Gabrielli, the Minister of Oil and Energy Edison Lobao, and Prime Minister Stoltenberg met President Lula in Brasilia (1). Being represented and associated with Norway gives the company a hallmark (26). A source in INTSOK (14) says the following:

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*If there is an event, StatoilHydro can go to the Government and say that other oil companies are coming with their ministers and political support. The success of StatoilHydro will depend on the governmental support at this event. If a minister accompanies us, he will get to meet with the relevant decision makers. It is not certain that StatoilHydro can make it on its own and it is therefore important to build networks and improve personal relations... The Government is important in opening doors and helping StatoilHydro if they get into trouble.*

StatoilHydro is in many ways prioritized on political delegations. UmoE BioEnergy has a NOK 1 billion investment in bioethanol production in Brazil. It has 1,700 workers and is one of the largest Norwegian owned companies in Brazil. In comparison, StatoilHydro (2007) had a NOK 174 million investment and just 23 employees in Brazil in 2007. UMOE BioEnergy sees the importance and potential of joining the political delegations and it requested to join the delegation to Brazil in September 2008; it was met with a negative response (27). One reason for not involving UMOE BioEnergy may have been that Bioethanol is defined as an agricultural product and not energy, and was therefore not considered relevant to the energy and climate delegation.<sup>10</sup>

### **5.5.2 INTSOK**

“INTSOK has an important role in bringing people together by arranging seminars and meetings” (source in StatoilHydro (7)).

INTSOK is a PPP that works to internationalize the Norwegian oil and gas industry. It is popularly called Konkraft’s brother-in-law.<sup>11</sup> INTSOK is 59% financed by the Norwegian Government and therefore to be seen as financial support to INTSOK’s members, such as StatoilHydro. INTSOK calls itself:

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<sup>10</sup> The delegation also spent time promoting Bacalao, which is not related to the theme of the delegation (29).

<sup>11</sup> Konkraft is a collaboration forum for the OLF, Federation of Norwegian Industries, Norwegian Association of Ship-owners and Norwegian Trade Union Federation (LO). The objective of Konkraft is to improve and boost competitiveness on the Norwegian Continental Shelf (see <http://www.olf.no/konkraft/category303.html>)

*a network-based organization where the partners exchange experience and knowledge of market developments internationally. The organization encourages active dialogue between oil companies, technology suppliers, service companies and governments. The Norwegian Government actively supports INTSOK's initiatives, and the activities are financed jointly by the industry and the Government ([www.Intsok.no](http://www.Intsok.no)).<sup>12</sup>*

Jens Stoltenberg, in his previous role as Minister for Oil and Energy, took the initiative to start INTSOK (14). When it was established in 1997, it had 45 partners; by 2008 this number has risen to 175. In addition to its office in Brazil, INTSOK has offices in Angola, Iran, Nigeria, Russia, USA and China (Kristoffersen 2007: 29). The close cooperation between Norwegian Governments and industry is said, by INTSOK, to be an advantage for Norwegian industry. In a survey performed among INTSOK partners, it was found that they believed INTSOK's role was a little unclear. This opinion was regarding INTSOK's role in the public policy system, the separation of INTSOK as an interest organization for the industry and a commercial union (Ihlen 2007:96).

Some argue that INTSOK has changed from being an organization for the big Norwegian actors such as StatoilHydro and Aker Solutions to an organization for smaller companies. Although there are people who say that INTSOK is not that important for StatoilHydro, I argue that it plays a significant role. A source in INTSOK says:

*Small companies have very little interest in the fact that Norwegian ministers are represented at INTSOK arrangements. However, it can have a positive effect for the big companies, like StatoilHydro and Aker Solutions, that Norwegian ministers are represented. INTSOK arranges seminars, for example in relation to Rio Oil and Gas 2008, where the Prime Minister opened the seminar. This is done because INTSOK knows that if Stoltenberg is represented, the Brazilian NOC will automatically be represented with its leaders. This leads to Norwegian companies getting new customers and partners on the other side of the table. Stoltenberg opens a door into a room that otherwise could have been hard to access (14).*

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<sup>12</sup> For more information on INTSOK: "INTSOK's objective is to work with companies throughout the industry to expand the business activities in the international oil and gas markets on the basis of the industry's leading edge experience, technology and expertise. INTSOK is an effective vehicle for promoting the Norwegian offshore industry's capabilities to key clients in overseas markets and providing market information to its partners. The INTSOK team has three main tasks. First, they assess market opportunities and enhance the ability of the partners to compete in the global marketplace. Second, INTSOK builds relations between clients and government representatives abroad. INTSOK has good access to Norwegian ministers which is used to get their members in contact with decision makers at a high political level. Third, they provide information about Norway's achievements in enhanced recovery, cost reduction strategies and Health, Safety and Environment measures." ([www.Intsok.no](http://www.Intsok.no)).

It is more important to get contacts in Petrobras than in the Government (14). “INTSOK members are mainly concerned with meeting their customers” (14).

INTSOK is an organization where the members can use the Norwegian political delegates to gain market access. For example, in a report from an INTSOK seminar in Brazil, where Stoltenberg was present, it is described that:

*INTSOK Partners appreciated the presence of CFO Almir Barbassa and Executive Manager on the Tupi field José Formigli. Mr. Barbassa presented the challenges in the supply chains for the presalt area and Mr. Formigli presented the technological challenges in the Tupi-field. In order to meet with these challenges, both speakers welcomed Norwegian companies to explore the big opportunities with the presalt development (INTSOK 2008b).*

This part has demonstrated the strong political and financial support of StatoilHydro in Brazil. This strong support makes it interesting to evaluate StatoilHydro’s activities compared to formulated Norwegian policy.

## **6. Fundamental differences between StatoilHydro's and the Norwegian Government's interests**

“It is an illusion that we can go on with our petro-economy in balance with climate demands” (WWF 2008b).

Internationalizing StatoilHydro has both positive and negative effects for Norway. The oil industry argues that international expansion will give the Norwegian state more income through its ownership, it creates employment, and it creates positive spin-off effects in the host country (Ihlen 2007:99-100). Norway has an interest in a high oil price, both to achieve good value for Norwegian oil and also to accelerate the fight against climate change. Increased oil production in Brazil creates a greater supply of oil and therefore a lower price. In addition, if StatoilHydro makes a large profit from its activities, this implies that a smaller percentage of the income from the oil will be available for the host country. However, StatoilHydro's profit brings little money to the Norwegian Government compared to oil and gas development on the NCS. The international activities of StatoilHydro will never be very monetarily profitable for Norway (Storeng 2008). Therefore, Brazil will make a large profit, which contributes to development. It is positive that StatoilHydro secures large international contracts to develop technology for use on the NCS or in politicized cases such as the Stockman development. It is also positive that StatoilHydro creates more jobs for Norwegian workers. The internationalization of StatoilHydro will give the company ‘feet to stand on’ when the NCS has peaked and production decreases (25).

Ryggvik and Engen, two critics of the oil industry, say that the history of Statoil has been turned upside down. “The company that was established to protect Norway against the international companies, has now become an international company that others have to be protected against” (Ihlen 2007:88). Ryggvik and Engen (2005) are very critical of the internationalization of StatoilHydro because they are picturing a situation where Norwegian tax payers have to pay for the company's failed projects abroad. Furthermore, Ryggvik and Engen are concerned with the power the united oil and gas companies represents. Many of StatoilHydro's activities internationally have been NOC-NOC cooperation, which is ironic, because one of the arguments for privatization was to get away from the NOC tag.

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When comparing StatoilHydro's activity to the targets in the Action Plan, there are some interesting findings on StatoilHydro's direct effect on realized energy and climate initiatives.

## 6.1 Increased technical cooperation with rapidly expanding countries like Brazil

StatoilHydro is an important actor in Norwegian-Brazilian cooperation and is therefore contributing to increased development cooperation. Significant Norwegian representation in Brazil will keep up the sharp focus on Brazil and make it easier to follow up the rain forest initiative (source in OLF (25)). However, the commercial business of StatoilHydro and Norwegian aid creates a mixture of roles and makes it difficult to separate private and public Norwegian actors. StatoilHydro is seen as the long arm of the Government and criticism of StatoilHydro will therefore also be regarded as criticism of Norway. The MFA's book on Norwegian interests (Lunde et. al. 2008:139) hints that Norwegian interest might be better served if Norwegian companies were allowed the highest degree of elbowroom. This argument does not recognise that some Norwegian companies, especially StatoilHydro, can be seen as a long arm of the Norwegian Government and therefore can affect Norway's reputation. "To be a responsible environmental nation has for a long time been an important pillar in the Norwegian emphasis on reputation" (Ibid:139). This reputation can be damaged by being involved in exploitation of heavy oil. However, Hans Olav Ibrekk (2008) in Norad argues that the perception of Norway as a leading environmental nation is a myth and part of Norwegian priggishness. Knowing that Norway's reputation is important in politics it should also be of interest to learn about the Norwegian environmental footprint.

*The footprints are principally made by Norwegian commercial actors, and the responsibility therefore, in principle, rests with companies and not the Norwegian Government. At the same time, environmental problems are some of the most visible expressions for a country's business activity abroad... Partly because we often deal with companies with a considerable public ownership, and also companies that enjoy public export subsidy schemes. Simultaneously ... the difference between the Norwegian Government and commercial companies is far clearer in our consciousness in Norway than in Government and the civil population in countries like Iraq, Nigeria, Chile and Mozambique (Lunde et. al. 2008:140-141).*

The impression of StatoilHydro in Brazil will be seen when they start producing and start to report on CO<sub>2</sub> emissions. There is practically no research on StatoilHydro's environmental

profile internationally that can form a basis for a debate about StatoilHydro's initiative in Brazil.

It is important for the Government to state that Norwegian aid is given with the provision that it should be unconditional, which means that the rain forest project does not require Brazil to give advantages to Norwegian business actors (Sjøgren 2008). The aid recipient does not commit to using Norwegian business (26). However, the recipient will probably feel that it wants to pay back Norway in one way or another. Overall, Brazil could get the impression that Norway is not helping to make Brazil more climate conscious, but rather the opposite. It would be damaging for the bilateral cooperation if Brazil suspects Norway of prioritizing hidden business interests. The promotion of the rain forest initiative and CCS must be seen as having honourable intentions, and not just being a way of securing StatoilHydro's place in the Brazilian market.

Some argue that there is no conflict between the rain forest initiative and StatoilHydro's oil exploitation (23). However, a Norwegian politician (30) says:

*How can the Government support this initiative on rain forest and promoting StatoilHydro in a clean way and avoid spill-over effects. It is not possible to avoid spill-over effects. When the Prime Minister gives money to the Amazon fund, says that Norway will be a leading nation on climate issues, promotes CCS and emphasizes that StatoilHydro has a leading position on CCS, it is impossible to avoid spill-over effects. Then, when the Government is in Brazil to create a commercial window for Norway and StatoilHydro and lists the previously mentioned initiatives, this has a tremendous effect on the Brazilian view of StatoilHydro.*

As mentioned earlier, the rain forest initiative has an indirect positive effect for StatoilHydro, but there is no evidence that StatoilHydro lobbied for the initiative. However, the problem with the abovementioned spill-over effect is that the Government's objective in initiating this project could be perceived as being a way of giving StatoilHydro a helping hand. The Government has a policy to promote all Norwegian business internationally, but problems occur if StatoilHydro's activities in Brazil are comprehended as contradictory to reducing CO<sub>2</sub> emissions.



## 6.2 Provide better access to reliable energy services

StatoilHydro contributes to supplying energy to a country in need of energy, also referred to as solidarity. This could create social and economic development for Brazil if the oil wealth is well managed and Brazil would be better placed to reduce deforestation if it could develop an industry with high returns, such as the oil industry. OLF states that “it is a false trail to reduce oil and gas activities” because it will stop development and therefore be negative for the climate in the long run (25). Norway is not in a position to tell Brazil what it should do with its oil. Decreasing exploitation of oil must be a Brazilian choice (34).

## 6.3 Enable use of CDM

Bill Clinton made the framework for the Clean Development Mechanism (CDM), which seeks to encourage industrialized countries to invest in emissions reductions projects in developing countries and thereby receive quotas (Tulder and Zwart 2006:321). Selling these quotas can strengthen the financing of projects. There are representatives from the Norwegian Government and the oil and gas sector working for CCS to become a part of the CDM and therefore also part of the aid program (22 and 23). Implementation of CCS in CDM would mean that Norway can subtract CO<sub>2</sub> reductions made by StatoilHydro in other countries (23). Norway is taking part in international lobbying to persuade Brazil to vote for implementation of CCS in CDM (34). This is problematic because there is no separation between the attempt to convince Brazil to change its mind about CCS in CDM and the attempt to sell StatoilHydro’s services. It seems that StatoilHydro has partnered with the Norwegian Government in the lobbying process. StatoilHydro, with its competence on CCS, can help the Norwegian Government in convincing Brazil. If they succeed it will enable the use of CCS as a mechanism in the CDM, which in turn could lead to more use of the CDM. However, this is not necessarily relevant for StatoilHydro’s projects in Brazil. The oil industry has promoted CCS as if it is a technological solution that also could reduce CO<sub>2</sub> emissions from the oil industry. This has made politicians and the Norwegian public believe that internationalizing StatoilHydro could be an initiative to reduce global CO<sub>2</sub> emissions and therefore contribute to realizing climate initiatives in Brazil. I argue that by promoting CCS, StatoilHydro changes Brazil’s attitude towards implementing CCS in the CDM and thus enables the use of the CDM in Brazil, but not in StatoilHydro’s activities.

## 6.4 Increased use of renewable energy

StatoilHydro has no initiatives on renewable energy in Brazil. By focusing only on oil, StatoilHydro is not contributing to better supply of clean energy. Many of its projects involve heavy oil, which demands a lot of energy to be produced and therefore leads to high emissions. Heavy oil is one of StatoilHydro's four strategic focus areas and should be seen as contradictory to the company's stated climate profile (StatoilHydro 2008c). Increasing use of renewable energy is an area where other Norwegian companies, like Umoe BioEnergy, could have contributed. They are however not involved by the Norwegian Government.

## 6.5 Increased investment in low-carbon technology

Involvement in heavy oil in Brazil is not contributing to increased investment in low carbon technology. The Norwegian Government and StatoilHydro promote CCS, but CCS is not suitable for extracting CO<sub>2</sub> from oil. Oil production leads to high CO<sub>2</sub> emissions independent of CCS. Thus, the environmental profile of oil is limited. See chapter 7.2.3 for an in-depth discussion of CCS. In an input to the Action Plan, ZERO<sup>13</sup> makes the criticism that the priority on increased energy efficiency and cleaner use of fossil fuels is on a par with, or in preference to, renewable energy. ZERO argues this is a way of enabling increased use of fossil fuels.

## 6.6 Improved energy efficiency

StatoilHydro can contribute to energy efficiency by being more energy efficient in its production than other companies. It is argued that the absence of Norwegian companies will allow entry for other actors who do not have the same 'good behavior' as the Norwegian companies (Lunde et. al. 2008:124). The high environmental standards on the NCS in addition to the CO<sub>2</sub> tax from 1991 have made the Norwegian oil industry the most environmentally friendly. The argument of being the most environmentally friendly oil company shows a strategic use of words by StatoilHydro. If the debate about the environmental profile of the oil industry had been conducted on the premise of the environmental NGOs, the Norwegian petroleum industry would rather have been referred to as the petroleum industry with the least environmental impact. Figure 6.1 shows aggregate numbers for oil and gas. Because StatoilHydro is the dominating operator on the NCS, the numbers for NCS will be approximately the same for StatoilHydro. OLF argues that Norway

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<sup>13</sup> ZERO is an environmental NGO. See [www.zero.no](http://www.zero.no)

will have considerably lower CO<sub>2</sub> emissions from both oil and gas production individually because of the restrictions on flaring (25).

All oil fields also contain natural gas. Flaring of gas is performed primarily as a safety measure to prevent dangerous situations, such as blow outs. The excess gas is burned as it is released and this process creates significant CO<sub>2</sub> emissions. If the oil field has a substantial amount of gas it can be sold, stored or be used on the gas power plant on the oil platform. However, flaring is responsible for a large share of CO<sub>2</sub> emissions and is a normal process used world-wide. Norway has strict regulations and CO<sub>2</sub> emissions from flaring have decreased to some 10% of Norwegian total CO<sub>2</sub> emissions (Ræstad 2008). StatoilHydro could contribute positively by flaring less than other companies. However, I have not succeeded in obtaining estimates for StatoilHydro's use of flaring in Brazil. Another way of reducing CO<sub>2</sub> emissions is to use electricity from land rather than gas power plants on the platforms, as is done on the Valhall and Ormen Lange fields (25). There are no plans for this at Peregrino. The oil and gas industry is responsible for 29% of Norwegian CO<sub>2</sub> emissions. The power needed on the platform and in production, produced on gas power plants on the platforms, accounts for the majority of the sector's emissions. Emissions from the petroleum sector have increased by 80% from 1990-2005, but the emissions per produced unit of oil equivalent have decreased by 21%. In comparison, land and air transport was responsible for 23.7% in 2005 (White paper no. 34 (2006-2007):24, 96, 102). Figure 6.1 presents numbers for production, not for consumption of the produced oil and gas.

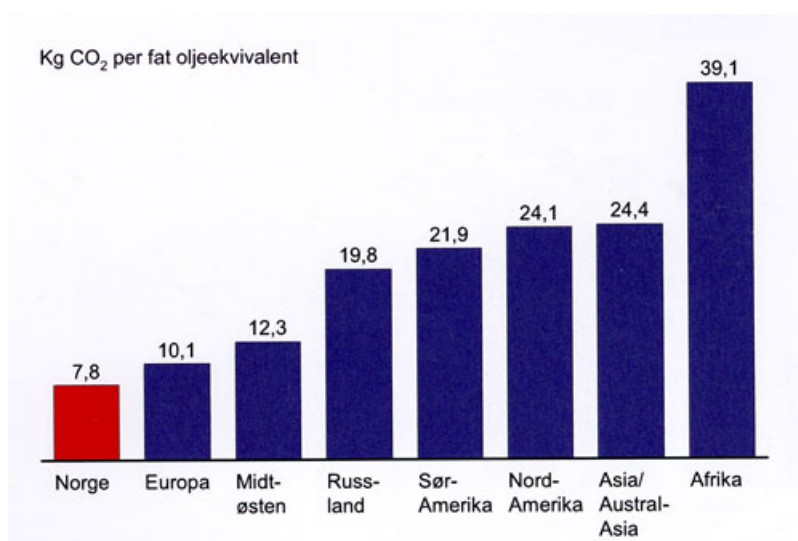


Figure 6.1: CO<sub>2</sub> emission from production of oil and gas (Konkraft 2008:60)

The difference in CO<sub>2</sub> efficiency between the suppliers of oil is primarily due to production and transport. Oil production is less energy demanding than gas production, as gas must be compressed and cooled down for transport. There is uncertainty about the environmental profile of StatoilHydro's production internationally compared to the NCS. It is difficult to compare StatoilHydro's CO<sub>2</sub> emissions per produced unit internationally and on the NCS because StatoilHydro is not yet an operator on any large fields internationally. The relationship between an operator and an interest holder can be compared to the relationship between a driver and a back seat passenger in a car. StatoilHydro is operator on an oil field in China, but it is small in comparison to, for example, Peregrino. Peregrino will be StatoilHydro's first large field where it is the operator and could show StatoilHydro's environmental profile in Brazil compared to other companies (35). However, StatoilHydro's numbers for CO<sub>2</sub> emissions concern the whole company and the numbers for a specific project are not accessible to the public (35). Therefore, it becomes impossible to conclude that StatoilHydro as an interest holder or as an operator will influence production having a reduced environmental impact. It is therefore not possible for the public to evaluate StatoilHydro's activities in Brazil when it comes to emissions. Although StatoilHydro argues that its production has less impact on climate, the exploitation of the oil will lead to more CO<sub>2</sub> emissions than if it did not take place. With this in mind, I argue that StatoilHydro can hardly be seen as being involved in a positive climate initiative.

However, energy efficiency can also be meant to be for the consumption element, where StatoilHydro does not contribute. The Konkraft report (2008:59) states that "the main CO<sub>2</sub> emission from oil is from the combustion element, which basically is the same independent of where the oil is produced. The bar in the middle in figure 6.2 shows that CO<sub>2</sub> emissions from producing Norwegian oil and gas are minimal compared to the much higher CO<sub>2</sub> emissions from the ultimate combustion of that same oil and gas, the bar to the right. The numbers are in million tons of CO<sub>2</sub>.

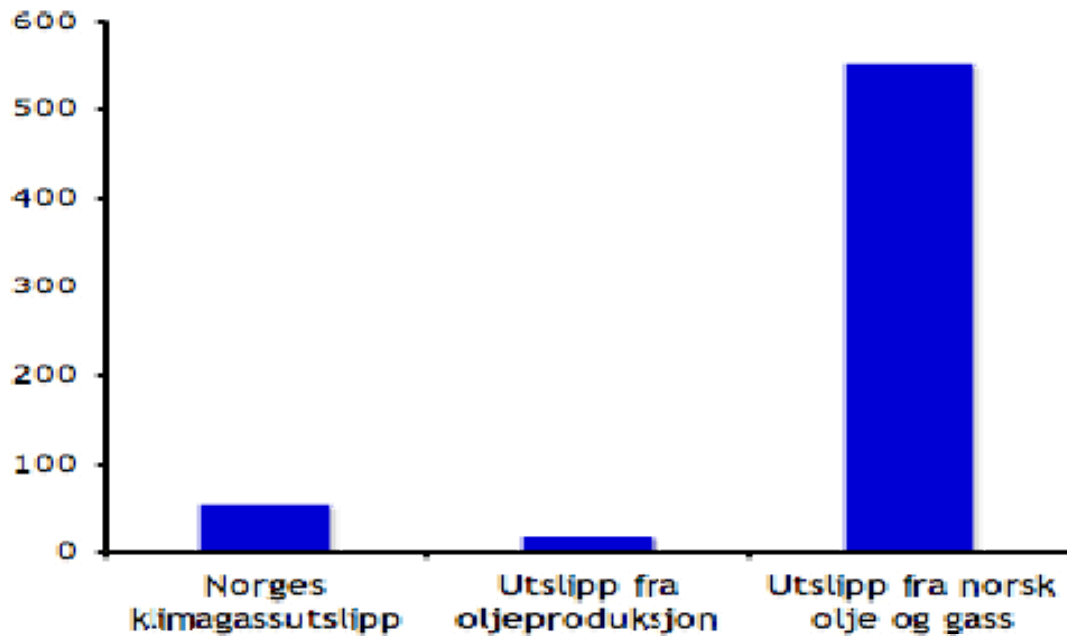


Figure 6.2: Emission from production compared to emission from combustion (Gjærum 2008) The numbers are from MFA and the Norwegian petroleum directorate (NPD).

If the relationship between CO<sub>2</sub> emissions from production and combustion are even close to what is described by Natur og Ungdom, it clearly demonstrates that the climate profile for these fossil fuels must not be talked about without focusing on the combustion element. Low CO<sub>2</sub> emissions from production do not make oil and gas a climate friendly alternative, as the oil industry likes to portray them.

## 6.7 Summary

It can be argued that business involvement can be good for development of the country, but not if it contributes to climate change. By promoting the environmental profile of StatoilHydro it can be seen as a Norwegian policy to use StatoilHydro as a climate initiative. There may obviously be some influence from StatoilHydro to make the policy practice more focused on oil and gas than the formulated policy intended, but the targets in the Action Plan would have been fulfilled to a greater extent without StatoilHydro's oil activities.

Internationalizing StatoilHydro could have a positive effect on the Norwegian community and host country. However, the problems lie in the lack of clear differentiation between private and public, the financial and political support from the Government, the contradictions with Norwegian environmental development policy and the threat to Norway's climate reputation. For example, the Norwegian model has been strategically and

rhetorically used as a door opener for Norwegian actors. Hansen (2008:7) says that “The Norwegian Government can support and help StatoilHydro win international operatorship”.

It can be argued that Norwegian climate policy at some point becomes petroleum policy. Solheim (2008d) says:

*There is no international climate initiative for the Government to use the Norwegian petroleum industry as a climate initiative. I hear that the petroleum industry argues that it is a good climate initiative to sell Norwegian gas to the world. That must be their argument, but that is not the Government's policy.*

My impression is that although there are fundamental differences in StatoilHydro's interest in Brazil and the Government's formulated policy, the Norwegian Government promotes StatoilHydro in Brazil as an agent of Norway's development and environmental policy. Simultaneously, the Government gives StatoilHydro uncritical, and very positive, feedback for their initiatives in Brazil (38). This chapter has argued that the policy practice in Brazil, to some extent, is not according to formulated policy and that some elements of StatoilHydro's activities in Brazil are contradictory to the Government's formulated policy. There can, however, be several reasons why policy is not implemented as it is formulated. The following chapter will account for the power of StatoilHydro as an explanation for why the company is considerably promoted by the Government as an actor in Norway's energy and climate policies in Brazil. The change from policy to practice will therefore be analyzed as an effect of the influence from StatoilHydro through its power.

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## 7. From policy to practice: StatoilHydro's influence

“The oil industry is a very political industry of course” (Egset 2008).

Although there are fundamental differences between StatoilHydro's and the Norwegian Government's interest in Brazil, as demonstrated above, the Government promotes StatoilHydro as an agent of Norway's energy and climate policies. A representative from the MFA gives the impression that there has been little reflection around StatoilHydro's influence on Norwegian political practice (11). StatoilHydro does not publicly have a policy that aims to influence the process from policy to practice. This chapter will, based on the view that StatoilHydro's activities are contradictory to formulated policy, analyze how the company's power resources and power activities can affect the Government's decision to promote StatoilHydro. Through this analysis I will demonstrate the probability that StatoilHydro has influenced the Government to politically support internationalization of StatoilHydro in Brazil as a climate initiative.

It seems that environmental policy has a value until it contradicts the interest of money (31). I argue that StatoilHydro's power has led the Government to focus its environmental development cooperation in Brazil on internationalizing the Norwegian oil industry. StatoilHydro has accomplished this by using two main arguments. First, StatoilHydro states that oil is necessary in the future because there are no real alternatives. Producing oil can therefore be seen as an act of solidarity because it makes it possible for developing countries to further develop. Heidi Sørensen (2008) from the ME states that the solidarity argument has been repeated over and over again by the oil industry and the ME therefore becomes convinced. Second, StatoilHydro can be a positive climate actor internationally by being more environmentally friendly than other oil companies. The industry points out that climate must be seen in a global perspective because it is a global problem. For example, gas is more environmentally friendly than coal and production and sale of gas will therefore decrease global CO<sub>2</sub> emissions. Simen Sætre (2008) argues that these arguments are presented with ulterior motives. However, there are some negative effects involved in this. Norway has a political target to be a leading nation on climate and environment. Contributing to producing oil abroad can be seen as contradictory to this.

The Norwegian Government promotes all internationalization of StatoilHydro, not just the more environmental aspects like gas and CCS. The power channels mentioned in the following are explanatory factors that explain how StatoilHydro's power can have influence on the Government's decision to support internationalization and make internationalizing StatoilHydro part of the Government's practice in climate policy. Through the interviews, seven channels stand out as the most important factors that demonstrate StatoilHydro's power: governmental ownership, control of the research agenda, technological power, lobbying, network, argumentation and persuasion, CSR and PPP. These channels are categorized into TNCs' two different sources of power. I hope this analysis will add another piece to our understanding of the various ways that StatoilHydro holds and exercises political power and will therefore have some added value.

## 7.1 StatoilHydro's power resources

"Votes count, but resources decide" (Rokkan 1987).

Power resources always have to be taken into consideration. The oil industry is by far the largest and most powerful industry in Norway and contributes to a large part of the country's value creation (34). Therefore, StatoilHydro has power through being the most important creator of wealth in Norway. Austvik (2007) argues this has led the Government to have a role as a 'junior partner to business' rather than StatoilHydro being a 'junior partner to government'. By making a comparison to the renewable energy industry one can see that these TNCs have a totally different role than the oil industry. The oil industry still receives far more research and development funding than the renewable energy industry.

Consequently, the oil industry wins the competition for talent and competence in a tight labor market (Lunde et al. 2008:208). Jorde (2008) points out that the oil industry is difficult to evaluate because it is too technically difficult to find information that the oil companies do not want to make public.

### 7.1.1 Structural power: governmental ownership

"We are an international oil company" (source in StatoilHydro (35)).

Does the fact that the state owns StatoilHydro give the company power over the state? Intuitively one would think that the governmental ownership increases the Government's power. However, as a source of structural power, governmental ownership is an important



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issue to address for several reasons, specifically because of StatoilHydro's image as an NOC. Governmental ownership should be seen as a power resource for StatoilHydro. "The strong Norwegian governmental owner interest that is connected to the oil industry should not be underestimated" (source in OLF (25)). State owned companies have better access to political elites than private companies and it is therefore in the interest of StatoilHydro to be partly state owned. As an owner in StatoilHydro, Norway has an interest in the company securing as many lucrative concessions as possible where it operates. This also means that Norway would have an interest in allying with regimes that give StatoilHydro the best concessions. This could be a direct contradiction between Norway's economic interest and the Norwegian environmental development objectives. This contradiction is especially obvious when StatoilHydro is operating in countries that receive Norwegian development aid. "The consideration of Norway's and StatoilHydro's interests has thereby taken priority in preference to development policy targets, such as democracy building and fighting poverty and corruption" (Sundstøl Eriksen 2007:120). The desire to get a Norwegian oil company into a contract limits which political demands Norway can propose (30). Norway has little to gain by being associated with StatoilHydro's criticized activities internationally. The planned activities in Brazil are not criticized, but they could be. On the other side, StatoilHydro has much to gain by exploiting Norway's reputation, the NOC label and the political support from the Norwegian Government. The governmental ownership arguably gives StatoilHydro more power over the Government than the other way around.

StatoilHydro has approximately 30,000 workers compared to the MPE's 140 employees. This demonstrates that there is an imbalance in human resources (StatoilHydro 2008b; MPE 2008d). It is estimated that Statoil had approximately 50 people working with politics in 1998, a number which has probably increased (Salvesen 1998)<sup>14</sup>. When it comes to financial and human resources, the size of StatoilHydro is the most important aspect that provides power resources (30). StatoilHydro can shape the beliefs of the MPE by explaining how the world is seen from its point of view (31).

The MPE, under its section for governmental engagement, has the responsibility to follow up the ownership of shares in StatoilHydro. State ownership in StatoilHydro continues to have an important function – not least in ensuring that the company retains a firm Norwegian

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<sup>14</sup> StatoilHydro's complex organization, combined with the problems of obtaining reliable data, prevents me from estimating the number of people in StatoilHydro working directly or indirectly with politics.

base. Claes (2008) argues that the state's ownership makes little difference to the governance of the company. The Government does not want to influence StatoilHydro in any way because it is afraid of being criticized for 'controlling' StatoilHydro. Norway has no history of directly controlling Statoil. It seems to me that there is uncertainty in the political system about how StatoilHydro should be handled. One argument for having ownership must be that one can influence. The socialist party is engaged in promoting governmental ownership in StatoilHydro. However, it is not clear what they want to do with this ownership (Boasson 2008). StatoilHydro perceives the Government as a passive owner, although the official policy is to be an active owner (source in StatoilHydro (15)). A source in the MPE (12) says that the state cannot say what it wants StatoilHydro to do. "The MPE never gives advice or guidance to StatoilHydro. The meetings we have are follow-up meetings, not in advance of StatoilHydro's investments. We do not plan anything with StatoilHydro. StatoilHydro informs us that they have invested in certain projects" (12). Liv Monica Stubholt (2008)<sup>15</sup>, on the other hand, says that the state clearly communicates the Government's opinion; for example on the Canada case. Per Kristian Foss (2008)<sup>16</sup> is of a contradictory opinion; he argues that the MPE never told StatoilHydro what they meant about the oil sand project, and he points out that StatoilHydro obviously never asks for advice about specific projects. Foss finds this problematic because he experiences that in some countries "StatoilHydro is seen as the Norwegian state". In this debate it is important to remember that the stock exchange law says that all shareholders should be treated alike. All shareholders should know as much at the same time (Foss 2008). This is a problem for what can be discussed at the quarterly meetings between StatoilHydro and the MPE. I argue that this is a reason to see StatoilHydro as the premise provider in this relationship and hence a source of power.

In addition to the quarterly ownership meeting, there are contact meetings with the MPE twice a year. These are characterized by a focus on general issues and policy and are said to be important for StatoilHydro (15). The state does not have the same opportunities to influence a company as private owners have. This is because the state has no representatives on the company's board. This is intended to ensure there is a clear separation between the role as owner and administrator on the NCS (Stubholt 2008). Storeng (2008) argues that not having a position on the board is an exclusion of liability. However, the MPE has the power to fire the entire board.

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<sup>15</sup> Stubholt works as state secretary in the MPE.

<sup>16</sup> Foss is a former finance minister from the political party Høyre.

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StatoilHydro is by definition an NOC<sup>17</sup> and is therefore internationally seen as a long arm of the Norwegian Government. StatoilHydro is perceived as being politically governed.

*In many of the countries where StatoilHydro has activities there is a totally different relationship between company and state. There is little understanding that there is a genuine attempt to clearly separate political governance and business in Norway. Therefore, it is a problem that the Norwegian state and StatoilHydro are perceived as the same, which is wrong (34).*

StatoilHydro defines itself as both NOC and IOC depending on the situation (source in StatoilHydro (15)). StatoilHydro might have a political bargaining chip when participating in such situations (Claes 2003:60). Lund et al. (2008:125) points out that “the distinction between StatoilHydro and the political Norway easily becomes blurred in countries with less separation between politics and business. Most people see oil companies based on the model in their own country.

*Therefore the Brazilian Government will see StatoilHydro as a long arm of the Norwegian Government. They will think that StatoilHydro is governed like Petrobras, that it is subject to political governance. Most people do not understand that NOCs can be that different. Sometimes StatoilHydro can play this as a positive element by saying that it is an NOC and should therefore be a preferable partner for you because it has the same history and values as you. In countries like Venezuela, Mexico and Brazil StatoilHydro has strategically used its status as an NOC... Strategically speaking, StatoilHydro has a schizophrenic attitude (source in INTSOK (14)).*

In addition to the resource imbalance, StatoilHydro has a clear competitive advantage in many countries because it is an NOC (30). INTSOK (2008) is of the opinion that NOCs will have a more important role in the future. The IEA (in INTSOK 2008) expects NOCs to produce 80 out of 120 million barrels per day in 2030. The NOC-NOC cooperation between StatoilHydro and Petrobras has been important for StatoilHydro’s success in Brazil (38). This implies that one should be more nuanced when studying oil companies. An NOC is not necessarily like other NOCs and there is not a clear interface between NOCs and IOCs. Domestically NOCs are national instruments and internationally they have larger degrees of

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<sup>17</sup> Willy Olsen (2008), who works in INSTOK and as a consultant for NOCs, defines all oil companies with more than 34% governmental ownership as NOCs.

freedom (14). In addition, the definition of NOC is unclear. Some define them as companies with at least 34% ownership, some as those with at least 51% ownership.

Because oil companies are only defined by one variable – governmental ownership – NOCs can vary significantly. I argue that because access to licenses and contracts is affected by how the host country sees the oil company, it is important to nuance the definition of energy companies. One solution is to categorize energy companies according to certain variables. I have chosen four variables relevant for Brazil's understanding of StatoilHydro as an energy company. Other characteristics of companies are also relevant (31), but not considered in this model. The four selected variables are: activities, CSR approach, political governance and governmental ownership. By political governance I mean the home government's influence on the governance of the company. The first two variables relate to the company's commercial activities. The third and the fourth variables relate to the company's relations to its home government.

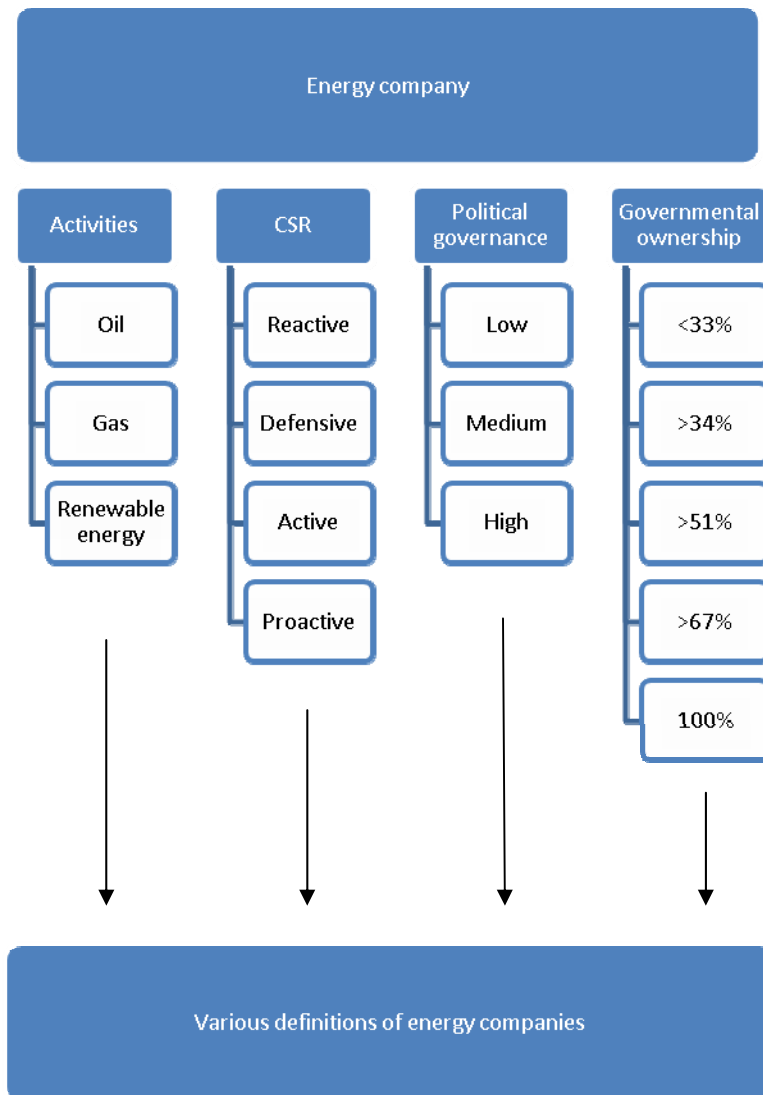


Figure 7.1: Criteria for defining energy companies

According to these categories, StatoilHydro Brazil can be defined as an oil company with an active CSR strategy, a low level of political governance and >67% governmental ownership. I argue that it is misleading to promote StatoilHydro as an NOC. It is important to note that a high level of governmental ownership does not automatically lead to high degree of political governance. An NOC is usually perceived as a long arm of the Government, but this is not necessarily true. Therefore it is especially important to have knowledge about the Government's ability to influence or control the company.

Some informants argue that StatoilHydro has projects internationally which it could not have in Norway. That is typical for TNCs and is politically problematic (31). For example, "when StatoilHydro invests in oil sand in Canada it is clearly contradictory to the prioritized goals

of the Norwegian Government” (source in INTSOK (14)). This can also apply in the case of exploiting heavy oil in Brazil. However, the production of heavy oil does not lead to as much CO<sub>2</sub> emissions as oil sand. Without considering flaring, the demand for energy to exploit the oil will indicate the degree of CO<sub>2</sub> emissions from the production element. The CO<sub>2</sub> emissions from production can be described as proportional to the estimated price for when it is commercially attractive to exploit the oil from various fields. In the Presalt fields in Brazil the estimated cost is USD 40-50 per barrel which means a substantial demand for energy and therefore also high CO<sub>2</sub> emissions.

Jorde (2008:3) states that “Norway also has a unique opportunity with the ownership in StatoilHydro to create an energy company that develops new and environmentally friendly energy instead of searching for oil and gas”. This would make Norway into an energy nation rather than an oil nation. However, this is not seen in Brazil, where the focus is on oil.<sup>18</sup> Therefore, in the case of internationalizing StatoilHydro the governmental ownership should be re-evaluated. There are different arguments prevailing concerning StatoilHydro in Norway and StatoilHydro abroad. In order to more clearly identify StatoilHydro’s role, the Government could promote more privatization or more governmental ownership. Further privatization would lead to a clearer split between the role of the Government and the role of StatoilHydro. If StatoilHydro was fully privatized, the Norwegian Government would not have responsibility over StatoilHydro’s action and it would not weaken Norway’s reputation as an environmentally leading nation. One of the main arguments for being a shareholder in StatoilHydro is to make sure that the head office is situated in Norway. However, this can be secured by having one-third of the shares, termed minority control. As demonstrated, the argument for owning StatoilHydro is weakened because its activity conflicts with Norwegian environmental policy (Foss 2008).<sup>19</sup> Two-thirds ownership in StatoilHydro is only relevant in having control over the articles of incorporation. Consequently, the percentage ownership is not vital for the Government but for how StatoilHydro is perceived (14). Making

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<sup>18</sup> The same effect can be reached by the Government Pension Fund – Global (GPFG). GPFG can strategically use investments towards renewable energy and by doing this use the profit from the oil industry to reduce climate problems. Today, GPFG has around 100 times more investment in fossil fuel industry than in renewable energy (Lunde et. al. 2008:130).

<sup>19</sup> The money from selling StatoilHydro could be placed in the GPFG, which can invest the money in accordance with Norwegian environmental development policy. In places like California and the Netherlands there are developed climate funds where one can invest in projects in developing countries that reduce climate emissions (PCC 2008:59). There is a growing debate about how to invest the money in the GPFG and there is a split between those who want strategic investments in environmentally friendly industry and those that are afraid of politicizing the investments in the GPFG (Lunde et. al. 2008:115).

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StatoilHydro a fully state owned company is another solution.<sup>20</sup> The Government could use StatoilHydro actively to fulfill policy targets for energy and climate policy. Today the management of StatoilHydro runs the company without considering Norwegian environmental development targets.

Based on this analysis, I argue that StatoilHydro has substantial power through its governmental ownership. I emphasize the resource imbalance and the contact with the MPE as especially important channels for StatoilHydro's power resources. The promotion of StatoilHydro as an NOC is also key for its activities in Brazil because it leads to more cooperation with Petrobras, and the Brazilian Government already knows the benefits of NOCs. The case illustrates the need to re-evaluate the way energy companies are defined. It also gives reason to conclude that governmental ownership in StatoilHydro should be re-evaluated. Further, politicians need more information and objective facts because the power of StatoilHydro has, to some extent, given it control over the research agenda, which in turn has led to a lack of independent research into the oil industry.

### **7.1.2 The power of knowledge: controlling the research agenda**

“There is a lack of public debate about the Norwegian oil industry” (politician (34)).

In an input to the Action Plan, the Research Council of Norway argues that independent research is necessary to rationally improve environmental development work. There is, however, no independent research on StatoilHydro's role in Brazil. In total, there is little independent research on the Norwegian oil industry despite the fact that it has become the most important Norwegian industry. Most of the research has been financed by the industry itself and there has therefore been an objective for the researchers to design a research project which the industry believes will be of value to them; if not, then other researchers will be prioritized (19). “The oil industry has power in that it has the resources to carry out studies and present the documented material in whatever way it believes it should be presented” (25). With some exceptions, the highest level of independent research into the oil industry is at a master's level (professor (31)). On the other hand, Stein Tønnesson (37), contributor to the Research Council's Petropol project, argues that the researchers who were financed by Petropol had full independence. However, he points out that research where

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<sup>20</sup> Practically, the Government can use the money from GPF to make investments in StatoilHydro instead of in the international financial market. This will affect the governance of StatoilHydro, but this will have a small impact on the national economy (Ryggvik and Engen 2005:54).

StatoilHydro is the subject should not be financed by StatoilHydro. He also points out that the Research Council is becoming too 'user dominated', meaning that the research representatives form a minority of the members in the program committee. A contra example to StatoilHydro's control of the research agenda is that the World Wildlife Fund has applied for financial support by the MPE to undertake an evaluation of StatoilHydro's possible effects in Alaska (WWF 2008). This is meant as contra presentation to what StatoilHydro presents (30). There is no such research on StatoilHydro in Brazil. The MFA has never done any work to study the influence or the political role of TNCs because it is a difficult phenomenon to get clear evidence about (source in MFA (11)). Moreover, the merger of Statoil and Hydro has reduced the Government's ability to use the competitors' resources in research. There is a need for competitive environments because two competing companies give politicians access to contra expertise, contra arguments and information (34).

Some informants argue there is a lack of critical journalism on StatoilHydro and too few journalists focusing on the oil industry. Dagens Næringsliv has been one of the frontrunners in creating a group that focuses on these issues (Ryggvik 2008; Lindeberg 2008). StatoilHydro's life is made easier when most research is financed by the oil industry and the media has only small numbers of staff working in the area. For example, at Toppledorforum on 21 October 2008 there were only three journalists present. If journalists were interested in the real issues in Norwegian oil policy there would have been more press at the event (34). However, if someone amasses a great deal of knowledge about the industry, they are likely to be recruited by it, probably at a higher salary. The lack of public debate leads to increased freedom to act for the industry and lack of counterclaims for politicians (34). Further, journalists sometimes have financial support from various interest groups. Traditional press is often owned by trade unions, organizations or associations, which can influence its independence. Another example is that the MFA has spent almost NOK 800,000 in the last three years on press grants to journalists that join Solheim on his international travels. The press's dependence on grants can affect how critical they are because they want to make sure they continue to get new grants (Næss Olsen 2008). There were some critical journalists on the Norwegian political delegation in September 2008. However, the journalists did not have background knowledge about the oil industry. For example, no questions were asked about the Government and StatoilHydro's promotion of CCS, which is of little relevance for StatoilHydro in Brazil.



### 7.1.3 Technological power – CCS in Brazil?

“Business’s control and ownership of energy technologies, and its ability to draw on technological expertise and know-how in the contest of negotiations, constitute an important source of power” (Vormedal 2008:61).

StatoilHydro has received international recognition for being a front runner on CCS. For example, the head of the CCS division has received the prize for ‘Green Man of the Year’ (source in StatoilHydro (35)). This section analyzes how StatoilHydro uses its technological power position to make the Government promote StatoilHydro’s technology, on for example CCS, as a climate initiative in Brazil. A large part of the Norwegian population probably believes CCS is a technological solution which will substantially reduce CO<sub>2</sub> emissions from the petroleum industry. This is not entirely true because CCS potential is overrated and I argue that CCS is of little relevance for StatoilHydro in Brazil. It is important to know the different aspects of CCS, which basically are capture, storage and transport. The following will explain why CCS has little relevance for reducing the CO<sub>2</sub> footprint from offshore oil and, therefore, little relevance for StatoilHydro in Brazil.

Capturing CO<sub>2</sub> from the combustion process is relevant for gas and coal fired power plants. Capturing can be divided into three main categories: post-combustion, pre-combustion and oxy-fuel.

*Post-combustion entails separating CO<sub>2</sub> from the exhaust gas from the power plant using chemical cleaning. Because CO<sub>2</sub> is separated from the exhaust gas, this technology can, in principle, be utilised in existing power plants without major modifications of the plant itself. Post-combustion is considered to be the most mature technology, although there is still significant uncertainty surrounding its use. With the aid of pre-combustion technology, CO<sub>2</sub> is captured before combustion... With oxy-fuel, combustion takes place in the gas turbine with pure oxygen instead of air. This means that the exhaust contains water vapour and CO<sub>2</sub>, and the CO<sub>2</sub> can be separated out by cooling the exhaust (MPE 2008).*

There are two locations in Norway relevant for capturing CO<sub>2</sub> in the combustion process – gas at Mongstad and coal in Svalbard (33). Pre-combustion is relevant for oil if hydrogen is separated from the carbon and oxygen and used instead of other petroleum products in transport. Oil is a very special resource because there are no real alternatives to it. The only alternative is to make hydrogen from the oil. Consequently, there is almost no climate profile

for oil and the CO<sub>2</sub> footprint from oil is difficult to reduce. Post-combustion and oxy-fuel are not relevant for offshore oil exploitation if the energy used is produced on the platform. CCS technology has for some time been argued to be relevant for the gas power plants on platforms because a platform requires a great deal of power. However, there is no CCS technology used in gas power plants on platforms today and Arvid Sande (2008) in *Beyond Petroleum* states that there is no longer a hope of using it in the near future. The power demand from a platform can be compared to the power demand from a small Norwegian town (Ræstad 2008). The alternative to a gas power plant at each platform is to supply power from the mainland, as is done at Valhall and Ormen Lange (25).

*CCS is more important for the mainland industry than for the oil industry offshore. The technology for post-combustion capture of CO<sub>2</sub> is so expensive that it will probably not be used on a large scale on platforms and in offshore production. It must be used on large point emissions on land... However, it will probably be many years before the technology is ready to be used on land as well. CCS has the best potential for coal (OLF (25)).*

Post-combustion can be relevant for reducing CO<sub>2</sub> from oil refineries, but this is not relevant for StatoilHydro in Brazil.

CO<sub>2</sub> must be transported from the CO<sub>2</sub> source to the geological structure where it will be stored. This transport can be accomplished by pipeline or by ship. Transport is the least complicated element in the CO<sub>2</sub> chain and transport of CO<sub>2</sub> is already used in commercial activities (MPE 2008). CO<sub>2</sub> can then be stored in oil fields and injected to enable enhanced oil recovery (EOR). StatoilHydro has extensive experience in storage of CO<sub>2</sub> in geological structures. Since 1996, one million tons of CO<sub>2</sub> per year have been separated from gas production on the Sleipner Vest field in the North Sea for storage in Utsira, a geological formation 1,000 meters below the sea bed (MPE 2008). The natural gas from Sleipner has too high a percentage of CO<sub>2</sub> to be sold as it is, therefore it needs to be separated. The CO<sub>2</sub> tax that was introduced in 1991 made this a commercial success, because of the high cost of releasing emissions in Norway. This has made the CCS project at Sleipner one of the longest CCS project in operation (21). Norway is the only country with a CO<sub>2</sub> tax, which means that there are not the same incentives to use CCS abroad (StatoilHydro 2008). CCS technologies are not commercial at the outset, but can be made commercial with proper regulation. There is significant technical potential for storing CO<sub>2</sub> in geological formations around the world.

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For example, storage in reservoirs that are no longer in operation is a good solution in terms of geology because these structures are likely to be impermeable after having held oil and gas for millions of years (MPE 2008). However, CO<sub>2</sub> is very aggressive and can break through (33). There are no plans for StatoilHydro to store CO<sub>2</sub> in Brazil and the separation technology is not transferable from gas to oil exploitation.

As demonstrated, CCS does not make oil significantly more environmentally friendly because it leads to little reduction of CO<sub>2</sub> from oil production. In addition, based on figure 6.2 I argued that the CO<sub>2</sub> footprint of oil is very little affected by CCS. “The majority of CO<sub>2</sub> emissions from oil come from the combustion element, which is relatively equal independent of where the oil is produced” (Konkraft 2008).

The relatively low CO<sub>2</sub> emissions from StatoilHydro’s Norwegian oil and gas production are mostly due to regulation on flaring of gas and the CO<sub>2</sub> tax. Norway, Sweden, Denmark and the Netherlands are the only countries with policies in place to stop flaring (23). In addition, the reason Norway’s oil and gas industry is seen as more environmentally friendly is because of the focus on EOR (21). In Norway it is normal to exploit 50% of the oil in the field; in the rest of the world this percentage is substantially lower, maybe as low as 25%. EOR can be achieved by injecting gas or water to keep up the pressure in the field. EOR leads to the cheapest and most energy efficient oil because of the large start up cost for each oil field, but mature fields demand more energy per produced unit (Sjøgren 2008).

Thus, StatoilHydro claims it is a more environmentally friendly solution than other companies. “Oil production has a negative effect on climate. But the production of oil in Norway has better, or less detrimental, climate effects than in other countries” (MFA (10)). However, because StatoilHydro has not been an operator internationally there are no numbers for its CO<sub>2</sub> emissions per produced unit of oil internationally compared to in Norway which can prove that StatoilHydro’s production has a less impact on climate than other companies (25). “The influence from other interest holders on the operator’s decisions and choices considering environmental solutions will vary” (25). Therefore, StatoilHydro’s international activities will not necessarily be more environmentally friendly. However, a source in the ME (23) argues the opposite. He points out that in the case of oil sand in Canada, some environmentalists have said that there has been more focus on environmental

aspects since StatoilHydro came in. StatoilHydro has a stronger perspective on environment than Canadian companies.

The MPE (20) states that CCS is a technology which is directed mostly towards downstream industry, such as gas power plants and places where fossil fuels are burned and there are large single point emissions. There are some 7,500 relevant point places for CCS (24). This is the case for both gas and coal, which are resources that are used for power generation. Oil, on the other hand, is not used in the same way. Oil is mostly used in transport and the emissions are spread over many points. If one wants to reduce CO<sub>2</sub> emissions from oil, the transport sector is the most important. Oil has certain characteristics and is utilized in such a way that it does not fit with the requirements for using CCS, which is that there must be a large single point emission.

If CCS is only used in gas production, and this is what Norway wants to promote, there should be more internationalization of the gas sector. StatoilHydro's activities in Brazil do not involve gas. Most people do not know that CCS is used in gas exploitation and is almost irrelevant for the oil industry. This means that the promotion of CCS in an agreement to internationalize the oil industry can be based on false arguments. CCS has been a way of legitimizing the oil industry, it has been a way of 'greenwashing' StatoilHydro.

Greenwashing is described by Greenpeace (2008) as "misleading consumers regarding the environmental practices of a company or the environmental benefits of a product or service". It involves a company promoting an environmental program or product, a marginal part of its business, while the corporation's product or core business is inherently polluting or unsustainable. This can be argued to be the case for StatoilHydro's use of CCS technology.

It is difficult to demonstrate that the oil and gas industry has misinformed the public about the use of CCS. However, CCS is indirectly presented in connection with oil. For example, at Statoil's CCS presentation at the Oslo conference on good governance and social and environmental responsibility, the slide show ends by saying that CCS is expected to become an important element in meeting the global climate challenge. This conclusion is next to a picture of cars driving under a bridge where it is written "It's global warming stoopid" (Statoil 2007). This is a way of connecting CCS to oil, because cars usually use oil products and are responsible for high CO<sub>2</sub> emissions. It can be said that the information flow from the oil industry about CCS and its usefulness for the oil industry has been so unclearly

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(elegantly) presented that even Prime Minister Jens Stoltenberg says the following about the paradox of oil exploitation on one hand and the rain forest initiative on the other hand:

*It is a paradox, but it is among the paradoxes we must solve. The most important challenges that humankind is faced with are poverty and global warming. We must solve both. To help the world's millions of poor one needs energy. Simultaneously, the emissions must decrease. This is a challenge in a world where energy demand and energy consumption are increasing. The answers are carbon capture and better emissions handling in the oil industry, and initiatives like those against deforestation in the Amazon rainforest (in Giæver 2008).<sup>21</sup>*

The problem is that this is probably how the Norwegian oil industry is promoted by the Norwegian Government in Brazil. Evidently, there are people in the MPE that know that carbon capture and emission handling has little or no practical effect on oil exploitation. So why does Stoltenberg promote StatoilHydro's activities in Brazil as a climate initiative?

Stoltenberg is not the only one connecting CCS to oil. Solheim also mixes up the areas where CCS has a potential of being a climate contributor. Solheim says:

*I understand the critics of CCS, who maintain that it is wind, solar and other renewable forms of power that are the future and that we should rather focus on developing these. But I believe that oil, gas and particularly coal will remain the main sources of energy for many years. And that it is therefore vital to develop the technology for capturing and storing the emissions produced (Solheim 2008b).*

Furthermore, Labor party politician Marianne Marthinsen (2008) says that "CCS is important because the economy will be oil based in years to come. And we need to find ways to capture CO<sub>2</sub>". Academic work also lacks a clear separation between the oil and gas industries when dealing with CCS. Vormedal (2008:51-52), which has studied the influence of business and industry NGOs in the negotiation of implementing CCS in the CDM, writes the following:

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<sup>21</sup> Stoltenberg did not respond when confronted with the questions about what he meant about the connection between CCS and StatoilHydro in Brazil.

*The fact that CCS offers the opportunity to continue using fossil fuels without significant CO<sub>2</sub> emissions makes it an attractive solution for the oil, gas and coal sector... Thus, companies and BINGOs representing the fossil fuel sectors have a vested interest in seeing CCS recognized as a mitigation option within the climate regime.*

However, it is not surprising that CCS is perceived as important for StatoilHydro Brazil. Through the Corporate Communication effort from the headquarters the company took initiative to convince the Government to promote StatoilHydro's climate profile in Brazil. Simultaneously, StatoilHydro states that it has never informed the Government that CCS is of little relevance for its activities in Brazil (source in StatoilHydro (38)). StatoilHydro wants to portray CCS as the solution for mitigating climate change and hence legitimize its activities. Technological power can in this aspect also be regarded as both agenda setting and discursive power because StatoilHydro is forming the ideas, beliefs and focus of relevant actors. Vormedal (2008:59) argues that technological innovation capacity and knowledge gives TNCs power to influence. The CCS case illustrates how StatoilHydro's influence may be conceptualized as a form of 'technological power'. Norwegian industry is very optimistic and believes that technology will be the climate solution (Norsk Industri 2007). That Government also adopts this positive technological view indicates that the voices of the industry are being heard. Also, the actual technological opportunities to develop climate friendly energy in the oil industry must become a reality. StatoilHydro and the oil and gas industry as a whole are typical examples of knowledge-intensive and innovation-based business.

To talk about the oil and gas industry as the petroleum industry is a simplification and is the reason for this false connection between CCS and oil. In a climate discussion, the oil industry should be considered separately from the gas industry because of the large differences in the two. The oil industry gains by being seen in the same boat as the gas industry because it is the oil industry that faces the biggest problems in reducing climate emissions. However, the technological and environmental profile of the gas industry shows the oil industry in a good light because the two industries are seen as one. Taken to the next level one could call it the 'energy industry'. This would involve oil, gas, coal, wind, and other renewable energy sources. When a company like BP (Beyond Petroleum) chooses to be involved in all types of energy sources it could be a ploy to use its activity in more climate-friendly energy in order to make its oil activities also look more environmentally

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friendly. It is like sailing with the wrong flag and I argue this is a form of greenwashing. Therefore, when discussing this one should deconstruct the large collective terms and make a separation between the oil and gas industries and see if the two industries have viable individual climate profiles. Furthermore, there should be a separation of onshore and offshore oil. Onshore oil projects often use energy from land, where CCS can be used to reduce CO<sub>2</sub> emissions. For example, StatoilHydro claims that it wants to use CCS on the new oil sand project in Canada. Moreover, the energy industry stands out as one industry with different portfolios. I argue that the exploitation of oil business should be separated from the power generation industry, especially when discussing climate profile, because CCS is most relevant for power generation. I argue that the technology for power generation facilities is used indirectly as marketing to legitimize other types of activities such as the exploitation of heavy oil in Brazil.

As demonstrated above, CCS cannot be used to separate CO<sub>2</sub> from oil in the same way that it is used to separate CO<sub>2</sub> from gas. However, CCS is used to promote StatoilHydro's oil exploitation activities. StatoilHydro actively uses uncertainty and lack of knowledge about the technology to its advantage. This technological power can have influence on the Government's decision to use StatoilHydro as an agent for Norway's energy and climate initiatives in Brazil.

The most important knowledge to take from this part is the need to differentiate between exploitation and power generation; oil and gas production, and offshore oil must be treated separately from onshore oil when dealing with CCS. In addition, the technology on CCS is not fully developed. Solheim (2008d) points out that "we are only at the beginning of developing the technology for CCS. In the world today there is way more talk about CCS than action". The IEA report on CCS (IEA 2004:3) reveals that "large-scale uptake of capture and storage technologies is probably ten years away, and without a major increase in research and development investment, the technology will not be in place to realize its full potential in the coming decades". Moreover, Greenpeace (2008b) argues StatoilHydro's technological power is contributing to giving a false hope to how CCS can be a climate solution.<sup>22</sup>

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<sup>22</sup> Greenpeace's report has six main arguments for why CCS will not save the climate: (1) CCS cannot deliver in time to avoid dangerous climate change, (2) CCS wastes energy, (3) Storing carbon underground is risky, (4) CCS is expensive, (5) CCS carries significant liability risks, and finally (6) there is high uncertainty concerning CCS.

## 7.2 StatoilHydro's power activities

### 7.2.1 Lobbying

"The oil industry is one of the best and most professional lobbyists" (politician (30)).

The common understanding is that traditional lobbying is directed towards politicians because they make decisions. For example, OLF has a strong focus on the representatives in the Norwegian parliament (30). Salvesen (1998) says that when Statoil's policy differs from Norwegian policy, the company uses lobbying to change the Norwegian policy. The existence of lobbying by Norwegian companies is well described and mapped in Gulbrandsen's (2008) comprehensive study<sup>23</sup>. However, the effect of lobbying towards politicians has proven hard to demonstrate.

There has lately been some work on the power of the oil industry on Norwegian domestic politics (Kristoffersen 2007; NRK 2008). The work has especially concerned the roles of Topplerforum and Konkraft. Topplerforum and Konkraft are now separate entities, to separate private and public concerns. A politician (34) says: "The fact that this separation did not happen until now illustrates that there has been an influx mix of roles between the industry and the public administration for a long time". However, the role of Topplerforum is argued to be over-exaggerated and misunderstood in the public domain (34).

*The Petroleum and Energy Minister does not need to be in the hands of the oil industry. The Minister has to take the whole picture into account, but can of course decide who he wants to listen to... There is however a system for checks and balances because the Minister for Petroleum and Energy will be confronted by the Minister for the Environment, who gets his information from other sources (34).*

The oil industry has specifically been criticized for its lobbying in the tax case in 2004.<sup>24</sup> However, the political decision was taken against the interest of Konkraft and proved that lobbying from the oil industry has its limits (30). It is said that interest organizations, like OLF and INTSOK, have the most important role in lobbying, not the independent firms (23). This implies the importance of INTSOK, Konkraft, OLF and Prosessindustriens

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<sup>23</sup> Gulbrandsen's study is based on data from The Leadership Study 2000 which involved 1,710 interviews with leaders in Norwegian society. The response rate among the private business leaders was 74.8%.

<sup>24</sup> See Kristoffersen (2007) and NRK (2008)



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Landsforening (PIL). However, StatoilHydro, as an independent company, has influenced by emphasizing the positive effects and the possibilities of internationalization. Lobbyism is also directed towards bureaucrats. StatoilHydro (15) argues that its contact with bureaucrats is as important as its contact with politicians. The MFA (11) argues that there is little lobbying towards the bureaucracy. However, a source in the MPE (26) argues that “a ministry does not necessarily know where the influence is coming from. It could come from several degrees away”. In this study, there are no empirical data which give reason to believe that the Government has taken any action in Brazil that it would not have done without the traditional lobbying from StatoilHydro.

StatoilHydro does not just lobby its home government, but simultaneously participates in policy processes in Brussels and in Washington. This is typical practice among TNCs (Fuchs 2007:72). This is a source of TNCs’ power and explains political mobilization by StatoilHydro, because it will eventually influence the Norwegian political system (Ibid:90). An informant from StatoilHydro’s office in Brussels says that the dialogue with the EU authorities is easier than with the Norwegian Government. There are more workshops and it is easier to get in contact with EU decision makers (15). However, “the higher costs of representation at the supranational level and the complexities and fragmentation of supranational governance make the successful exercise of instrumental power difficult for small interest groups; they do advantage the resource-rich interest groups over poorer ones” (Fuchs 2007:95). StatoilHydro may have a representative in important climate negotiations (23), but the companies are usually represented through interest organizations. Evidently, StatoilHydro has a significant focus on lobbying.

Another form of lobbying is through inputs to political processes. StatoilHydro has not been active with inputs to the Refleks project. Aker Solutions, which to some degree has the same objectives as StatoilHydro, emphasizes three main arguments in its contributions (Hansen 2008). First, Norway should focus on being a dependable oil and gas exporter. Second, Norwegian technological development is one of the most effective instruments to handle the climate threat. Third, Norway should promote itself as an environmentally friendly energy exporter. These three arguments are adopted by bureaucrats and repeatedly used in the MFA report *Norske Interesser* (Lunde et. al. 2008). These arguments are also used by politicians, for example by Stoltenberg when he was in Brazil in September 2008 (journalist 29).

Lobbying also takes place at political delegations. There is considerable potential for StatoilHydro to influence the Government at these delegations. I have, however, not been given access to what has been said in meetings between StatoilHydro and Government representatives at these delegations and I therefore have no empirical data to indicate the use of political delegations as a power channel. A politician (34) says that “there are smarter ways to influence than through traditional lobbying”. As a consequence, lobbyism is not as important for StatoilHydro as its informal contacts (31).

### **7.2.2 Network power**

“It would have been very interesting to have more in-depth studies on informal networks. But then you have to get on the inside and go through with an investigation. However, it is worrying that a high degree of power is exercised through a system that one knows little or nothing about” (Øyvind Østerud in Lundgaard et. al. 2008).

Network contact will here be defined as all contact which is not specific or case-based lobbying (Gulbrandsen 2008). StatoilHydro’s network and contact with government representatives are complex and difficult to follow. Officially, StatoilHydro has one person responsible for governmental contact, Gunnar Myrvang. However, there are many StatoilHydro employees who have various forms of contact with the Norwegian Government. Internationally, the land director is responsible for contact with representatives from the Norwegian Government, which means that Jorge Camargo is responsible for governmental contact for StatoilHydro’s activity in Brazil. In addition, the communication department also has governmental contact.

A developed network culture demonstrates that network power is critical for StatoilHydro. The network culture is especially developed in Norway because it is a small and homogeneous country. “Network is important in Norway to get in contact with decision makers and sell the products” (26). There are traditions of cooperation between the Government and the industry. Historically, there has been close connection between StatoilHydro, bureaucrats and the Labor Party (32). Støre and Stoltenberg come from an oil industry influenced network, which makes it easier for them to talk about StatoilHydro’s activities and environmental policy at the same time. Stoltenberg, the current Prime Minister, was previously the Minister of Petroleum and Energy. This historical connection to the MPE and the oil industry has given oil and gas easier working conditions. StatoilHydro has ready

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access to people at a high political level in Norway. For example, StatoilHydro can directly contact the OPM and arrange meetings at a high political level without the MPE even knowing about the contact (34). The contact with bureaucrats has been argued to be important for StatoilHydro's lobbying. Bureaucrats probably also have an important role in networks and informal contact because politicians are highly influenced by their administration. The close contact between business and bureaucrats has led to business people being referred to as street-level bureaucrats.

In addition, people often move from jobs in the Government to positions in industry, and vice versa (10). People circulate from industry, politics and academia. They have many hats. The people in the petroleum industry are faithful to the industry and when one moves into a government position or organization they bring with them the morals and thoughts of the industry. Former representatives from the oil industry move to other positions in society where they can use their influence and fight for the rights of oil and gas. Also, the petroleum industry has employed many former politicians and bureaucrats who know how to get things through the political system (Kristoffersen 2007:25).<sup>25</sup> It is not illegal or wrong in any way to employ former politicians or bureaucrats, but it is an important issue to be aware of. For example, the official governmental contact person in StatoilHydro, Gunnar Myrvang, has been a political adviser for several governments formed by the Labor party and worked as state secretary in the MPE. In addition, Helge Lund, the CEO of StatoilHydro, has a background as a political adviser; he worked for Høyre which is in opposition today. Another example is the Labor Party politician Anne Kristin Sydnes, who for some time was Director of Statoil's division on human rights work and land analyses before she became Minister for International Development in 2000. StatoilHydro needs people that know the political system and have a network. It can be argued that employment of former politicians and bureaucrats creates a better understanding of the state by StatoilHydro. There is a wider understanding of the other actor's position which minimizes the distance between state and market.

The political elite and the business elite meet several times a year, for example at the annual dinners arranged by Norges Bank and NHO (36). Politicians also participate at many StatoilHydro events, for example at the ONS conference in Stavanger. "These conferences

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<sup>25</sup> Gulbrandsen's (2008:9) study show that 7% of private business leaders had worked one year or more in politics, and 18% in public administration.

have a mix of representatives from business, government, academia etc.” (10). The Sandefjord meeting is also an arena where the oil industry has events that provide arenas for interaction between business representatives and the political elite. It is a good opportunity for StatoilHydro to present its view on different issues (30). This is also a way of courting favour. At these events, StatoilHydro can control the setting and the presentation of information. This is also seen in the close relationship between StatoilHydro and politicians on the political delegations to Brazil. Furthermore, OLF regularly invites politicians to industry events (OLF 2008b;c). Politicians say that environmental concern pushes the oil and gas industry out. That is, however, not the impression that was given at ONS in Stavanger. In 2008, 25 young politicians were invited to visit ONS with OLF. OLF says that “the objective of the gathering was to give young politicians insight into the most important industry in the country” (OLF 2008). The focus on creating networks and contact with the political elite, as well as youth politicians illustrates the importance of networking for the oil industry. I argue that StatoilHydro has substantial power activities through its networks. Networks and informal contact are arguably more important channels of power than traditional lobbying for influencing how StatoilHydro is promoted by the Government. Network power is to some extent an invisible form of power because it is impossible to know what influences the decision makers. The power of argumentation and persuasion can also be perceived as an invisible mechanism.

### **7.2.3 The power of argumentation and persuasion**

“You are dependent on having a generally positive reputation in the public opinion. It does not help to convince the politicians if the people are of a different opinion” (source in OLF (25)).

There is a great deal of influence through argumentation and persuasion. For example, sustainable development is a highly discussed concept. Concerning energy, some have said that it is not sustainable to use fossil fuels at all. Others say that we can use some fossil fuel, but we have to develop technologies for the next generation. The basic message is that we should not “put future generations at a lower level of ability to meet their need than the present generation” (Crane and Matten 2007:499). This view on sustainable development can be experienced as threatening for StatoilHydro. There is also an industrial approach to sustainable development, also referred to as the argument about being the cleanest actor in a

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dirty business (Støre 2007). In Statoil's sustainability report from 2004 (Statoil 2004:3-4) it says:

*Based on scientific material, Statoil understands that production and consumption of fossil fuels can represent a liability for our surroundings, among other factors like global warming. At the same time, it is unrealistic to picture development in the next 30-40 years without oil and gas as the dominant energy carrier. Our responsibility therefore becomes to minimize the unwanted effects from our business activities. This is done by, for example, systematic work to reduce emissions to air and water.*

By definition, the oil industry is not sustainable because it exploits a non-renewable resource. Also, the implications from exploiting and using oil involve a high level of CO<sub>2</sub> emissions. One way that the industry can stay sustainable would be to use the profit from fossil fuels to develop renewable energy. That way, the oil and gas industry will change into an industry of renewable energy, such as indicated by BP, which now calls itself "beyond petroleum". One can see this as a way of using the oil and gas to hand over an industry of renewable energy to the next generation. StatoilHydro promotes its different investments in renewable energy, such as offshore wind and the pilot project on wave power in Portugal (Kullerud 2008). However, critics say that the percentage of investments is so low in this area that this is just a commercial stunt.

StatoilHydro has a large staff working on issues relating to communications, CSR, government contact and representation in many forums. These forums include Konkraft, Topplerforum, INTSOK, Kompakt and the Energy Council. Topplerforum is an arena where the oil and gas industry as a whole can influence through persuasion and argumentation. They produce reports and present their view on different issues. In addition to these forums, StatoilHydro is often present at different conferences and other arenas where it can express its views and be in contact with the society as a whole. There is probably much truth in the saying that if you repeat something enough times, people will start to believe it. It is important to remember that the Norwegian oil industry is perceived as environmentally friendly although the Norwegian industry has a negative reputation for its international activities. One reason could be the way the oil industry argues for its environmental profile. Sigbjørn Aanes (2008) from OLF said at *Globaliseringskonferansen* in Oslo that "one barrel of oil produced in Norway leads to five times less CO<sub>2</sub> emissions than a barrel produced in Africa". For those who have background information about

emissions from oil it is obvious that Aanes refers to the production element, but for others it could be understood as CO<sub>2</sub> emissions from Norwegian oil are radically lower than from oil produced elsewhere. This type of argumentation and persuasion takes place at various conferences and forums and leads to a misunderstanding of the climate profile of oil.

StatoilHydro claims that the criticism of the company is stronger on its home field, in Norway, than at the place where the activities take place (Ihlen 2007:82). StatoilHydro laughs this off by saying that “it is impossible to become a prophet in your own country” (Utengen 2008). However, it can also be seen as entirely natural that StatoilHydro receives totally different feedback in Norway than where its activities take place. This is because there is an increasing focus on ethics in Norway in general, and in the media in particular. StatoilHydro has activities in some countries where there is not even a free press and where the critics have to be careful about what they say to avoid being sanctioned (Bergan 2008).

StatoilHydro uses the media actively to express its views. Bellona has criticized StatoilHydro for commercials that it says paint a misleading picture of the company (in Wang and Sundset 2008). The consumer ombudsman has concluded that StatoilHydro violated the Marketing Practices Act in its commercial campaign in autumn 2008. The decision was taken against StatoilHydro because “it is wrong for a company whose main activity has serious environmental consequences to use environmental symbols in its marketing” (in Blindheim and Sæbø 2008). INTSOK (2008) advises using experience from oil and gas production to develop renewable energy. Consequently, Norway should internationalize the oil industry to develop renewable energy. This is not the case in the short run. StatoilHydro promotes itself as working on wind power and other renewables, but the alternative energy part of the company budget does not reflect the time devoted to this area in its commercials. StatoilHydro is not involved in any renewable energy projects in Brazil. There are, however, possibilities for StatoilHydro to be involved in renewable energy by, for example, cooperating with UMOE BioEnergy’s on its bioethanol project in Brazil. Tor Steinum in former Hydro (in Ihlen 2007:113) emphasizes that the work with solar energy and other alternative energies is an important part of the company’s reputation building activity. He describes it as an important defense mechanism for the company. Moreover, StatoilHydro has also been criticized for giving the impression that it is more involved in environmental initiatives and research than it actually is. StatoilHydro has used extensive resources to better the reputation of the oil industry, for example through Konkraft (16). By

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doing precisely this, StatoilHydro has managed to perpetuate a long held belief among large sections of the Norwegian public and Norwegian politicians that Norway's interests are the same as the interests of the Norwegian oil industry.

Kristoffersen (2007) points out that the industry has managed to make its interests stand out as being common interests for the nation. Tore Slaatta (2005) says that during the work on the Petropol project on the oil industry's reputation, surveys showed that there is great support in the Norwegian population for the oil and gas sector's goals and that the Norwegian population believes that Norway, as a rich oil nation, has a particular responsibility for the development of poor countries (NPD 2005). Kristoffersen (2007:23) describes the internationalization of StatoilHydro as "the Norwegian oil fairy-tale continuing abroad". The Government is going towards a policy where they want Norway to be seen as a "climate conscious exporter of fossil fuels", with a "special role as a climate conscious oil nation" (Lunde et. al. 2008:114,149). These could easily have been the words of the oil industry.

#### **7.2.4 CSR and PPPs as power instruments**

"A CSR project is a project outside commercial activities that seeks to demonstrate that StatoilHydro is a prudent company" (source in StatoilHydro (15)).

CSR, or corporate integrity and social responsibility (CISR), as StatoilHydro calls it, is a focus area for the company. By promoting self-regulation, CSR and PPP, StatoilHydro can set the rules and standards for the game and they argue that by having these systems there is not the same need for state regulation. CSR is an attempt to say that StatoilHydro will fix things themselves (31). Crane and Matten (2007) argue that business ethics begin where the regulation stops. Thus, the more business ethics, the less regulation. Some critics of self-regulation claim it is done mainly to prevent extensive and internationally binding regulation and agreements. StatoilHydro tries to avoid these agreements by showing that it can "maintain order in its own home" (Ihlen 2007:176). If the Government wants StatoilHydro to contribute in realizing Norwegian development objectives as they are formulated in policy documents, such as the Action Plan, there need to be incentives, not just vague guidelines. Input to the Action Plan argues for a need for better systems for evaluation and reporting which correspond to more concrete and measurable targets. Successful politics needs instruments (15). A businessman (27) says that "the industry will find solutions if the

framework conditions are in place. Let the politicians make the regulation and let the business make it happen”.

Bull and McNeill (2007:166) discovered through their study that many employees of the CSR departments of TNCs often have the same sort of background as their counterparts in multilateral organizations or in governments. Ditlev Simonsen (2008) sees CSR as a part of the commercial and reputation building of the company, which is usually developed by the information department. In StatoilHydro, the government contact, Gunnar Myrvang, is responsible for the sustainability report.

StatoilHydro says that they use the same standards abroad as they do in Norway. “At least, that is what is said in the after-dinner speeches, and that is what the aim should be” (34). The environmental profile is focused on the company as a whole, not on the specific activities of the company. Ræstad (2008) says that his impression is that the base organization is concerned with external environmental effect, but the personnel in the fields are only concerned about EHS (Environment, Health and Safety). The CSR work is so centralized that individual projects do not get the same attention. I argue that there should be an individual CSR approach for each project. StatoilHydro does not even report on the environmental effects of individual projects (35). It is obvious that the CSR approaches differ from project to project. A project with lower environmental standards should not benefit from the centralized CSR reputation of the company. For example, CSR is important for StatoilHydro in Brazil, but the company has a low environmental profile there by not focusing on renewables, which is part of the centralized CSR reputation. OLF argues that it is a legitimate ambition for StatoilHydro to be at least as environmentally friendly as its competitors (25). However, a Norwegian politician argues that “Norway should not do something that we are against just because we believe that StatoilHydro does the job in a more environmentally friendly manner than other companies” (30).

The example Global Compact (GC), where corporations can associate themselves with the UN in their image campaigns, demonstrates how StatoilHydro can use PPPs to its own advantage (Fuchs 2007:113). GC is an inter-organisational network where private actors are incorporated in a dialogue on CSR. It is a bottom-up organization which is based on corporations (Ruggie 2002). Critics have pointed out that the GC may allow corporations to gain prestige from cooperation with the UN system and the use of the UN logo for their



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image campaigns without actually making substantial improvements to their environmental or social practices (Fuchs 2007:113). As a member of GC, StatoilHydro can meet TNCs in the same situation and use the forum to learn how to use CSR strategically. The GC is an example of a PPP where business holds substantial power and where business and industry may dictate agenda and rule setting (Ibid:114). The effect on StatoilHydro of being involved in GC can be seen when politicians point out that they have noticed the company's positive involvement in international arenas concerning CSR (Støre 2007).<sup>26</sup> A source in the MFA (26) says: "it is my opinion that companies are genuinely interested in environment and work conditions". Therefore, "the embassies try to sell Norwegian business by focusing on quality and social responsibility" (26).

As already mentioned, StatoilHydro has a CSR project in Brazil. More important is the base organization's promotion of CSR as a reputation builder. It can be argued that StatoilHydro's promotion of CSR has convinced the Government to promote its products as climate friendly and sustainable. I have demonstrated StatoilHydro's activities directed towards the political system, politicians and bureaucrats, and the Norwegian population. These are all examples of power channels where StatoilHydro executes its power activities. I argue that this discussion strengthens H<sub>1</sub>.

### 7.3 Summary

"Very few have access to the data and experience which StatoilHydro has" (StatoilHydro (7)).

Based on this analysis I argue that StatoilHydro has considerable power in each of the power dimensions. First, StatoilHydro evidently has strong power resources because of its governmental ownership, its control of the research agenda and its technological power. I argue that the promotion of StatoilHydro as an NOC is misleading and has improved StatoilHydro's market share in Brazil. Controlling the research agenda has led to a lack of independent research, and the promotion of CCS is greenwashing and is helping StatoilHydro to establish a reputation as a Norwegian climate actor in Brazil. Second, StatoilHydro holds and uses its highly developed power activities towards the whole of

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<sup>26</sup> In addition to the membership in GC, Hydro has had a longstanding leadership in the World Business Council for Sustainable Development and Statoil ranks first among international oil and gas companies on the Dow Jones Sustainability Index – and has done so for the last three years in a row (Støre 2007).

society, not just politicians. I argue that lobbying is not as important a channel for power as network power, power of argumentation and persuasion, and CSR and PPP as tactical instruments. Network power and power of argumentation and persuasion stand out as important power channels for StatoilHydro and should be further studied and scrutinized. These channels are difficult to analyze in a manner that produces hard evidence because these are invisible mechanisms. In both dimensions, discursive power stands out as an important, and at the same time an underestimated source of power.

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## 8. Conclusions and implications: The power to influence

“Today’s problems cannot be solved by thinking in the same way as when we created them” (Albert Einstein in Innbjør 2008).

From this analysis I have reached some interesting findings. First, the illustration of the promotion of CCS has demonstrated a misuse of the company’s technological power. CCS has, as argued, been sailing with a false flag and therefore also given false hope and expectations. For example, academics write that “CO<sub>2</sub> capture has the seductive characteristic of uniting economical and climate policy targets, because use of this technology legitimizes and make possible further expansive exploitation of oil, gas and coal” (Vormedal 2008b). This is how most people understand CCS, but I have showed that CCS is of little relevance for StatoilHydro’s oil production in Brazil. Second, following the CCS debate, I emphasize that there should be a clearer separation between exploitation activities and power generation activities because CCS is significantly more relevant for power generation. It is also crucial to differentiate between the environmental profiles of oil and gas. The industry has clearly been promoting the environmental profile of the whole petroleum industry based on the environmental profile of gas. Furthermore, when discussing CO<sub>2</sub> emissions and CCS for the oil industry there should be a separation between offshore and onshore oil production. At minimum, production units that use land based energy should be separated from those which do not.

Third, I also would like to point out that the promotion of StatoilHydro as a company which produces oil in a climate friendly way compared to other companies is overrated and not demonstrated internationally. This is due to that StatoilHydro is not yet an operator and that it does not publish emission numbers for specific projects. In addition, the CO<sub>2</sub> emissions from production are a limited part of the CO<sub>2</sub> footprint of oil, which mainly relates to combustion. Fourth, the case of StatoilHydro in Brazil has demonstrated that StatoilHydro benefits from being defined as an NOC. I have demonstrated that the definition of an NOC is very wide and they can therefore be very different. An energy company’s access to resources depends on how the host country sees, or defines, the company. Therefore, I propose a new way of defining energy companies which is more nuanced than today’s NOC – IOC classification. By using a more nuanced classification the host country is better capable of knowing what characteristics the companies have.

I started this thesis by presenting my research question: What can explain the Norwegian Government's promotion of StatoilHydro as an agent of Norway's energy and climate policies in Brazil in spite of their different goals? In answering the research question this thesis has discussed theoretically, and investigated empirically, StatoilHydro's influence on the decision to be promoted as an agent of Norway's energy and climate policies in Brazil. Chapter 5 and 6 clearly outlines how the Government focuses on promoting StatoilHydro in Brazil in spite of the fundamental differences in StatoilHydro's and the Norwegian Government's interests, which is demonstrated by comparing StatoilHydro's activities to the policy targets in the Action Plan. In chapter 7, I presented StatoilHydro's power based on my data collection. It should therefore be pointed out that there could be other relevant channels for power, which for some reason have not come up as important in my data collection. I argue that StatoilHydro's power has given influence in the process from formulated policy to practice. Furthermore, chapter 7 emphasizes that the company's power has contributed to make possible StatoilHydro's activities in Brazil as we see them today. The theory concerning StatoilHydro's power resources and power activities have been used as an analytical tool to illustrate that StatoilHydro has power and that power is an explanatory factor for why StatoilHydro is promoted as a Norwegian climate actor.

To understand how TNCs influence public policy, it is important to study their rhetoric, institutionalization, knowledge and competence, networks, reputation and especially their power (Ihlen 2007:183). I conclude that StatoilHydro holds power and uses this power. It cannot be concluded that StatoilHydro has had direct influence on the governmental decision to promote StatoilHydro as a Norwegian agent in realizing energy and climate initiatives in Brazil. However, based on the assumption that power leads to influence I argue there is good reason to believe that the governmental decision to promote StatoilHydro is related to the company's power. StatoilHydro's power resources and power activities are clearly important explanation factors for why the company is promoted as an agent of Norway's energy and climate policies in Brazil. I argue that StatoilHydro has substantial power influence on the Norwegian Government. Consequently, I conclude that my hypothesis, H<sub>1</sub>, is strengthened through this analysis.

These conclusions have some implications for the Norwegian Government's desire to involve StatoilHydro and other TNCs in environmental development projects. TNCs can, as

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pointed out in the case of StatoilHydro, have positive effects on the development of developing nations. Industry and business are essential for social and economic development. A developed business sector is especially important to make the country independent of traditional aid and assistance. These are mutual gains for all actors in the triangular diplomacy and prove that involving TNCs in development work can take the Norwegian development initiatives to the next level. There is also a business case for cooperation with home government because TNCs have much to gain by being promoted by, and associated with, the Norwegian Government. However, when TNCs are involved in national development programs, the separation between public and private becomes unclear.

I have argued that this mix of roles is problematic, but is unrealistic and almost impossible to avoid. For example, Norwegian embassies' role is to promote Norwegian public interests in addition to promoting Norwegian business interests. The embassies' role is therefore inherently a mix of public and private. If there is little political will to change the role of the embassies, Norway should focus more on clearly explaining this situation to the involved parties in the host country. Involving TNCs demands a clearer demonstration of Norway's approach to development work. TNCs must be understood and treated as commercial actors, based on the knowledge that they are powerful profit-seeking enterprises. There is little possibility for home government to influence TNCs on a project level because the host country has to be in control of specific regulations in its own country. Some informants argue that government must place more demands on the companies, but it is extremely difficult for the Norwegian Government to tell another country what is in its own best interests and how it should run its affairs (34). Consequently, the home country's influence on TNCs must be the paramount requirement. One of the important factors that influences what climate strategy the oil and gas companies choose is found in the political context of their home country. Skjærseth and Skodvin (2001 in Ihlen 2007:103) argue that social and political pressures are regarded as the most important driving forces for climate considerations. However, the resource imbalance between large TNCs and the home government can turn this assumption upside down. By this I mean that it could be argued that the national climate strategy can be affected by the large TNCs that are dominant in Norway, such as StatoilHydro. This is in accordance with Linda Weiss' theory about the state as a service station for TNCs.

Further, I argue that one of the most important implications of involving TNCs is that TNCs' power must be thoroughly studied and understood. Invisible power mechanisms, like discursive power, agenda setting power and greenwashing, are the most dangerous ones if underestimated. StatoilHydro has, as argued, substantial power and therefore potential for influence through various power channels. Other TNCs probably also have influence on the Norwegian Government. TNCs power and influence can be a problem if not dealt with, but as long as the invisible mechanisms for influence are exposed, there is a greater possibility of a positive outcome from involving TNCs. The Norwegian Government must focus on aggregated Norwegian interests and follow its formulated policy. If the Government believes that TNCs will contribute positively to reaching its policy targets, TNCs should be invited to have a role in realizing Norwegian energy and climate targets.

“Norway has four international instruments of significance; The Government Pension Fund-Global (GPF), StatoilHydro, development aid and the power of the example... StatoilHydro invests enormously internationally in activities that are contrary to official targets for Norwegian climate policy” (WWF 2008b). Norway's key vulnerability is in undermining its reputation by StatoilHydro's investment in projects that would seem to undermine Norway's international values. The Government has to make a clear guide for how they want StatoilHydro to develop. If there is a desire to create an energy company that develops into a 'beyond petroleum company' the Government has to make sure that StatoilHydro focuses more on renewable energy. Practically, the Government can do this by making public strategy documents and white papers to parliament which outlines the desired development targets for StatoilHydro. However, StatoilHydro does not want this discussion and will probably work against such political involvement in the governing of the company. Furthermore, the Government will always have a 'pain limit' of what it can accept from the oil industry. The uncritical enthusiastic rhetoric about Norway being a green nation in a polluting world could backfire if the gap between rhetoric and reality becomes too big (Lunde et al. 2008:148). I hope Støre's Refleks project will become a turning point, and therefore also a starting point, which leads to a more congruent Norwegian environmental development policy. The Norwegian Government has to align its policy practice with its formulated policy before Norway can give the impression that it is a united green country trying to save the world from global climate change.

## 9. List of Acronyms

BINGO - Business and industry NGOs  
CCR – Corporate Climate Responsibility  
CCS – Carbon Capture and Storage  
CDM – Clean Development Mechanism  
CSR – Corporate Social Responsibility  
EOR – Enhanced Oil Recovery  
GC - Global Compact  
GPFG - Government Pension Fund – Global  
IEA – International Energy Agency  
IOC – International oil company  
ME – Ministry of the Environment  
MFA – Ministry of Foreign Affairs  
MPE – Ministry of Petroleum and Energy  
MTI – Ministry of Trade and Industry  
NCS – Norwegian Continental Shelf  
NGO – Non-governmental organization  
NHO - Confederation of Norwegian Enterprises  
NOC – National Oil Company  
NPD - Norwegian Petroleum Directorate  
OLF – The Norwegian oil industry association  
OPM – Office of the Prime Minister  
PIL - Prosessindustriens Landsforening  
PPP – Public-Private Partnership  
SD – Sustainable Development  
SDFI - State’s Direct Financial Interest  
TNC – Transnational Corporation

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## 11. Appendix 1: Observation

- MFA's sustainable development conference in Oslo in February 2008
- Meeting between MFA, Norad and INTSOK in Merethe Nygård's office
- Topplederforum 27.05.2008 and 21.10.2008
- Energirådet 26.05.2008
- Kompakt 17.06.2008
- Conference at Norad about companies' role in aid and the Brazilian rain forest fund
- Conference by NORISS and Respublica 28.08.2008
- The Policy Coherence Committee's launch of their report at Litteraturhuset
- Two-day seminar about Norway in the petroleum industry. Arranged by Petrad. 1.-2.09.2008
- EITI seminar about oil companies at Litteraturhuset 23.09.2008.
- INTSOK's day in Stavanger before ONS 25.08.2008
- Natur og Ungdom's conference at Chateau Neuf October 2008
- Globaliseringskonferansen in Oslo in November 2008
- Meeting with the unit for public relations in the MFA where I got insight into documents relating to the Action Plan. These documents are referred to as input to the Action Plan.

## 12. Appendix 2: Interview theme guide

TNCs' role in development work

Norway and StatoilHydro in Brazil and the relevant actors

Norwegian climate initiatives in Brazil

StatoilHydro as an agent for Norway's climate initiative

Evaluating INTSOK, the Norwegian embassy and political delegations

General impression of the role of StatoilHydro and its power resources and power activities:

1. Structural power: Governmental ownership
2. Control of the research agenda
3. CCS on offshore oil production
4. Lobbying
5. Network
6. Argumentation and persuasion
7. CSR and PPP

Further advice?