U3L4A6 | News broadcast or radio show

overview

In this activity you will work with a partner to investigate and determine causes for the large discrepancy in inflation rates between Norway and Venezuela. Your teacher will provide you with several articles to get started, but additional research is strongly encouraged. You may present your findings in one of two formats: news broadcast or radio show.

learning goal

- To understand factors which cause inflation.
- To understand how government policy tools influence price stability.

success criteria

- Completion of news broadcast or radio show.

Inquiry Question

- How do governments maintain inflation rate targets?

Assignment

As of January 2015 Norway's inflation rate was approximately two per cent. As of December 2014 Venezuela's inflation rate was approximately 68 per cent (source: www.tradingeconomics.com). Both countries are experiencing a natural resource boom in petroleum yet their inflation rates are at opposite ends of the spectrum.

a You will work in pairs (one student researches Venezuela, and one student researches Norway) to investigate the inflation rates of two uniquely different oil rich countries.

b You must identify:

1. The impact of the inflation rate on social, economic, and environmental sustainability in each country.
2. The causes for this large discrepancy in inflation rates between the two countries (effective use and/or absence of monetary and fiscal policy tools contributing to each country's rate).

You can submit results in one of two ways:

1. News broadcast (can be done live in class or pre-recorded and submitted electronically).
2. Radio show podcast (submitted as an audio file).
   *APA bibliography required.

Suggested sources to get started:

Venezuela

- "Street protests loom as shortages, inflation and oil slump hit Venezuela"
- "Oil cash waning, Venezuelan shelves lie bare"
- "Shortages, inflation and long lines have Venezuelans grumbling"

Norway

- *Sovereign wealth funds: What does it take to succeed?* (Excellent 11 minute video: www.cbc.ca/news/business/norway-s-sovereign-wealth-holds-lessons-for-canada-1.3002803)
- "Norway's sovereign wealth holds lessons for Canada"
- "The Norwegian government pension fund: a success story"

theguardian

Street protests loom as shortages, inflation and oil slump hit Venezuela

As President Nicolás Maduro tours the world in search of financing, the most conciliatory opposition leader says the time has come to mobilise on the streets

Sybilla Brodzinsky (January 16, 2015)

Even Venezuela's most conciliatory opposition leader has had enough.

Amid sky-high inflation, an absent president, snaking queues outside supermarkets, and plummeting oil prices, Henrique Capriles said this week that the time was ripe to try to force a change.

"We are in a state of emergency," he said on Monday. "This is the time to mobilise in the streets."

The call to protest was significant because Capriles, a state governor, disavowed last year's violent protests demanding the resignation of Nicolás Maduro, Venezuela's president. Instead, Capriles had advocated regime change through the ballot box.

But the situation on the ground has changed since then. Venezuela's economy is estimated to have shrunk by 4% in 2014, with inflation hitting 64%. The price of oil, which accounts for more than 95% of Venezuela's hard-currency income, continues to fall. According to the latest opinion poll, Maduro enjoys the support of just 22% of the population, and he has come under fire on social media and editorial pages for spending nearly two weeks outside the country – with his extended family in tow – while the crisis deepens.

Most worrying for Venezuelans are food shortages. Standing in line for hours to buy basic subsidised goods such as milk, soap and diapers has become an exhausting reality of everyday life, but tensions have grown since stocks are running lower than usual after the holidays and police began enforcing a policy that limits patrons to two shopping days a week at government-run supermarkets. In three states, authorities have banned overnight queues.

Capriles, who narrowly lost the presidency to Maduro in 2013, met with other opposition leaders throughout the week to define their protest strategy.

But in the western city of San Cristóbal, the flashpoint of last year's protests, a small group of students have already begun to set up roadblocks and burn tyres, according to Reuters. Flashes of protest at supermarkets in Caracas have landed a handful of people in jail.

"Venezuela is living in a state of perpetual crisis," says Carlos Romero, a Caracas-based political analyst. "But it's been a stable crisis," he says, adding that despite rumours of a possible coup or an impending debt default, Maduro still holds the political reins.

In December, Maduro confirmed that the country was in recession, but blamed an "economic war" orchestrated by political foes.

"The strategy that they are carrying out aims to disrupt civilians and cause extreme situations, that is the key part of their efforts to destabilise the country," Maduro told reporters. "An economic coup is also under way inVenezuela," he said.

The president, who succeeded the father of Venezuela's socialist revolution, Hugo Chávez, two years ago, set off on 4 January on a whirlwind tour of China, Russia and several Opec nations to seek fresh money to shore up the Venezuelan economy and try to convince other oil producers to curtail production.

In Beijing, Maduro announced that China had agreed to invest more than $20bn (£13.2bn) in Venezuela, but it remains unclear whether the sum represented a fresh arrangement or was part of pre-existing oil-for-loans deals. Even if the investments are new, it is far from certain that this is money that the Venezuelan government can use for imports or debt repayments.

Oil prices continued to drop during his tour but after meeting Vladimir Putin on Thursday, Maduro said he secured enough pledges of money to buttress Venezuela's economy.

“I have got the funds needed so that the country can maintain its rhythm of investment, of imports and economic stability,” he announced from Moscow. There was speculation in Caracas about whether he might fly next to Mexico, another major oil producer, for a meeting with President Enrique Peña Nieto.

Maduro is due to address the National Assembly – Venezuela’s unicameral legislature – on 20 January.

The New York Times

Oil Cash Waning, Venezuelan Shelves Lie Bare

WILLIAM NEUMAN, JAN. 29, 2015

CARACAS, Venezuela — Mary Noriega heard there would be chicken.

She hated being herded "like cattle," she said, standing for hours in a line of more than 1,500 people hoping to buy food, as soldiers with side arms checked identification cards to make sure no one tried to buy basic items more than once or twice a week.

But Ms. Noriega, a laboratory assistant with three children, said she had no choice, ticking off the inventory in her depleted refrigerator: coffee and corn flour. Things had gotten so bad, she said, that she had begun bartering with neighbors to put food on the table.

"We always knew that this year would start badly, but I think this is super bad," Ms. Noriega said.

Venezuelans have put up with shortages and long lines for years. But as the price of oil, the country's main export, has plunged, the situation has grown so dire that the government has sent troops to patrol huge lines snaking for blocks. Some states have barred people from waiting outside stores overnight, and government officials are posted near entrances, ready to arrest shoppers who cheat the rationing system.

Because Venezuela is so dependent on oil sales to buy imports of food, medicine and many other basics, the drop in oil prices means that there is even less hard currency to buy what the country needs.

Even before oil prices tumbled, Venezuela was in the throes of a deep recession, with one of the world's highest inflation rates and chronic shortages of basic items.

One of the nation's most prestigious public hospitals shut down its heart surgery unit for weeks because of shortages of medical supplies. Some drugs have been out of stock for months, and at least one clinic performed heart operations only by smuggling in a vital drug from the United States. Diapers are so coveted that some shoppers carry the birth certificates of their children in case stores demand them.

Now economists predict that shortages will get even more acute and inflation, already 64 percent, will climb further. The price of Venezuelan oil dropped this month to $38 a barrel, down from $96 in September.

"Things are going to be even worse because oil keeps Venezuela going," said Luis Castro, 42, a nurse, standing in line with hundreds of others at a grocery store. He had arrived with his wife and 6-year-old son at 6 a.m., but by 11:30 a.m., they had still not entered. "We're getting used to standing on line," he said, "and when you get used to something, they give you only crumbs."

The shortages and inflation present another round of political challenges for President Nicolás Maduro, who has vowed to continue the Socialist-inspired revolution begun by his predecessor, the charismatic leftist Hugo Chávez.

"I've always been a Chavista," said Ms. Noriega, using a term for a loyal Chávez supporter. But "the other day, I found a Chávez T-shirt I'd kept, and I threw it on the ground and stamped on it, and then I used it to clean the floor. I was so angry. I don't know if this is his fault or not, but he died and left us here, and things have been going from bad to worse."

Thousands waited last week to buy basic goods at subsidized prices in Caracas. Those who cheat on rationing risk arrest. (Meridith Kohut for The New York Times)

Venezuela has the world's largest estimated petroleum reserves, and when oil prices were high, oil exports made up more than 95 percent of its hard currency income. Mr. Chávez used the oil riches to fund social spending, like increased pensions and subsidized grocery stores. Now that income has been slashed.

"If things are so bad now, I really cannot imagine how they will be in February or March" when some of the lowest oil prices "materialize in terms of cash flow," said Francisco J. Monaldi, a professor of energy policy at the Harvard Kennedy School of Government.

Mr. Maduro spent 14 straight days in January traveling the globe in an effort to court investment and persuade other oil-producing nations to cut production and push the price back up.

"We have serious economic difficulties regarding the country's revenue," Mr. Maduro said to the legislature during his annual address, which had to be pushed back because of the trip. "But God will always be with us. God will provide. And we will get, and we have gotten, the resources to maintain the country's rhythm."

After months of toying with the politically taboo idea of raising the price of gasoline sold at pumps here, the cheapest in the world, he said that the time had finally come to do so.

And he reiterated his position that the country's economic ills are the fault of an economic war being waged against his government by right-wing enemies.

Many economists argue that government policies are a big part of the problem, including a highly overvalued currency, price controls that dissuade manufacturers and farmers, and government restrictions on access to dollars that have led to a steep drop in imports.

Some investors fear Venezuela will default on billions of dollars in bonds, but Mr. Maduro has said the country will pay its debts.

Typically, in an election year like this one, when voters will choose a new legislature, the government showers supporters with goods, like refrigerators and washing machines, or other benefits, like free housing. But now there may not be enough foreign currency to import appliances and construction materials.

In interviews, shoppers did not say they were going hungry. Rather, many said the economic crisis meant eating canned sardines instead of chicken, or boiled food instead of fried because vegetable oil is so hard to get. Many said they ate meat less frequently because it is out of stock or too expensive. Fresh fish can be harder to find, in part, fishermen said, because they find it more profitable to use their boats to sell subsidized Venezuelan diesel on the black market in a high-seas rendezvous instead of hauling in a catch.

But social media in Venezuela is full of urgent pleas from patients trying to find prescription medicine.

Dr. Gastón Silva, the head of cardiovascular surgery at the University Hospital of Caracas, said that because of medical shortages, only about 100 heart operations were performed there last year, down from 300 or more in previous years.

Some patients who had been hospitalized awaiting surgery for a month or more were sent home in November because there were not enough supplies, and the operating rooms remained shut for more than eight weeks, Dr. Silva said, despite a list of hundreds of people awaiting heart operations.

He said the shortages stemmed from the government's foreign exchange controls, which have kept medical importers from getting access to the money they need to make purchases abroad. Now with the low price of oil further restricting the government's supply of hard currency, he worried the crisis would get worse.

"We are getting to a breaking point," Dr. Silva said. "If one thing is lacking, O.K. If there are no automobile parts, we'll see. Food, that's problematic. But health care, that's more problematic. Where will it end?"

Mr. Silva said that a private clinic where he also works had sharply scaled back heart surgeries in the last four months of 2014 because of limited supplies.

A heart surgeon at another private clinic said that a colleague had smuggled an essential drug from the United States to keep the operating room functioning.

Ana Guanipa, 75, a retired government office worker, said that she had searched numerous pharmacies for her hypertension medicine.

"I've been looking all month, and I can't find it," she said, adding that a neighbor who takes the same drug gave her some. "I take it one day on and one day off so that it will last longer."

On a recent morning, hundreds of people stood in line outside a big-box store, similar to Costco. Inside, many shelves were stripped clean. The large appliance and electronics section was empty. One aisle displayed hundreds of boxes of a single brand of toothpaste. There was no fresh meat; a cooler was filled with frozen pigs feet.

Most people came to buy only three items sold at government-mandated prices: laundry detergent, vegetable oil and corn flour.

Every purchase was entered into a database, ensuring that shoppers did not try to buy the same regulated staples at the chain for at least seven days.

Soldiers patrolled the line outside, police officers were stationed inside and government officials checked identification cards, looking for fake ones that could be used to cheat the rationing system — or for immigrants with expired visas. An official from the immigration and identification service said that offenders would be arrested.

"This is pathetic," said Yenerly Niño, 18, adding that she had waited more than five hours to buy the three subsidized products because she could not afford to buy them at the higher prices charged by street vendors.

"You do what you have to," she said. "If you don't do it, you don't eat."

LA Times

Shortages, inflation and long lines have Venezuelans grumbling

By MERY MOGOLLON AND CHRIS KRAUL (January 24, 2015)

Waiting in line for hours to buy groceries at a supermarket in eastern Caracas, Helena Siso didn't know or care who was to blame for the acute shortages of consumer goods plaguing Venezuela. She just wanted the government to do something about it.

"This is very frustrating," said Siso, a 54-year-old doctor's secretary. "Here I am on my lunch hour and I have to spend three hours in line to buy toilet paper. Tomorrow, I'll have to come back to get corn flour. I don't want the government to give me anything, just save me from submitting to these lines and this desperation."

"It's the government's fault. There are scarcities in everything, especially in children's things, like milk, vitamins, shampoo and diapers."- Zulay Gutierrez, 30-year-old hotel concierge

Siso's comments were typical of the exasperation many Venezuelans' expressed after President Nicolas Maduro's state of the nation address this week in which he defended the socialist model of government but offered no immediate solutions for the country's deepening economic crisis.

In addition to shortages that have consumers waiting in long lines for sugar, cooking oil, soaps, rice and other items, Venezuela is also in the grips of a sputtering economy and rising inflation that last year averaged 63%, the highest rate in Latin America.

Times are likely to get even tougher this year. After the economy shrank by 3% in 2014, the International Monetary Fund issued a forecast on Wednesday saying the total Venezuelan output of goods and services will shrink by a further 7% this year.

Although the economy here has been in disarray for several years, the main reason the IMF cited for the poor 2015 outlook is the 50% drop in the price of Venezuelan oil, on which the country depends for 95% of all export sales.

As he waited in line at a supermarket in the Mercedes barrio in eastern Caracas, construction worker Ramon Diaz said what bothered him was that many subsidized goods such as milk meant to be available at the government chain of grocery stories end up in the hands of black market sellers who charge three times the official prices.

“The government has to stop that,” said Diaz, 45. “As long as the contraband continues, there is no solution, and we will have to continue standing in line.”

The lines are not only growing longer but more violent, a sign of rising frustration, Siso said. She avoids shopping in the Valles del Tuy barrio where she lives because the “law of the jungle” is what prevails there. “Those who push, shove and punch take everything and leave nothing for the rest of us.”

Among the few defenders of the government encountered in Thursday’s lines was Jose Delgado, a 42-year-old shopping center janitor, who blamed scarcities on hoarding wholesalers. Delgado is among the still considerable supporters of the late Hugo Chavez who said tougher times have not turned them against Maduro, Chavez’ successor.

“I am with my comandante,” Delgado said, referring to Maduro. “The people in these lines buy more than they need and so that’s why everything runs out so fast.”

In his televised speech before the National Assembly on Wednesday night, Maduro defended the socialist system, saying it “guarantees the just distribution of Venezuela’s wealth” and enables the country to confront the “assaults of economic warfare that reappeared in the second half of 2014.”

Maduro has repeatedly blamed the United States for his country's economic woes, saying that the rise of U.S. shale oil production and its effects on world oil prices is a tactic designed to destabilize Venezuela.

Zulay Gutierrez, a 30-year-old hotel concierge, who was interviewed as she stood in line to buy disposable diapers at a drug store in the Candelaria section of eastern Caracas, said the blame lies closer to home.

"It's the government's fault," Gutierrez said. "There are scarcities in everything, especially in children's things, like milk, vitamins, shampoo and diapers. There is no soap to wash dishes or clothes. When there is chicken or meat to buy, you have to fight your way through the line to buy it."

CBC news

Sovereign wealth funds: What does it take to succeed?

Transparency, governance considered critical to saving resource income for future generations

By Janet Davison, Mar 23, 2015

Off-shore oil revenues and fiscal discipline gave Norway the chance to build the world's largest sovereign wealth fund. (Statoil/Associated Press)

Norway's sovereign wealth fund, the country's collective bank account now valued at $1 trillion and built from off-shore oil reserves, is often held up as a prime example of how such funds can succeed.

The usual rule: make prudent investments, stick to them, be transparent and watch the money grow exponentially.

But Norway's Government Pension Fund, as it is formally called, is only one of an estimated 80 or so sovereign wealth funds worldwide that collectively hold $7 trillion US.

These others probably also hold lessons for how governments can save wisely for future generations. Lessons that might apply to Alberta's Heritage Savings Trust Fund, which began in 1976 with the best of intentions, but seems to have stalled out at roughly $17.2 billion.

But rating these sovereign wealth funds, it turns out, is a subjective affair.

"How do you define success?" asks Michael Maduell, president of the U.S.-based Sovereign Wealth Fund Institute, a research organization. "Is it investment returns? Is it their goals?"

By most measures, Norway's 25-year-old fund — easily the largest in the world and considered very well-run — comes out a top performer.

"For sure, it's the most successful," says Greg Poelzer, a University of Saskatchewan professor who has delved into the "global lessons from Norway" in a recent report published by the Macdonald-Laurier Institute.

One of the keys, he says, was Norway's decision to move all its oil revenues out of general revenues, a strategy that set the stage for greater economic stability.

"You don't have this overheating," says Poelzer. "You don't have a super-high inflation and you also avoid, especially with government budgets, the roller-coasters which we're seeing in Alberta right now."

Other measures

Beyond size, though, there are other measures of success for sovereign wealth funds, says Pat Schena, an adjunct professor of international business at the Fletcher School at Tufts University in Massachusetts.

"Another measure might be in the quality of the management of the fund," he says, pointing to funds in Australia and New Zealand, and to some degree, he says, AIMCo, which manages the Alberta fund.

"People view them … very positively because of their transparency and good governance."

Poelzer sees other successful funds closer to home, in places such as Alaska and North Dakota.

The $52.8-billion Alaska Permanent Fund, he says, has "done very well."

"One of the things they did commit to was putting 25 per cent of their oil reserves into the fund and that again has showed a lot of foresight.

"Right now where they're going through economic difficulties, because of the downturn in the price of oil, they're in better shape than they would have been otherwise."

Happy residents

The investment strategy for the Alaska fund is more aggressive than Norway's.

"They'll invest in hedge funds, they'll invest in private equity vehicles. They'll even allow and buy large stakes in companies," says Maduell.

But Alaskans seem happy with the results, he says. "Every year everyone there gets a dividend."

After oil started booming from the Bakken Formation in North Dakota, state legislators established a sovereign wealth fund in 2010. (Matthew Staver/Bloomberg)

Poelzer also sees a good investment strategy in North Dakota, where oil started booming from the Bakken formation and state legislators set up the North Dakota Legacy Fund in 2010. It is now worth an estimated $2.4 billion.

“What’s interesting from a Canadian perspective,” Poelzer says, is “we often like to think of ourselves as the more progressive, gentler, kinder, forward-thinking country, and in the middle of the western part of the United States, their legislators have had the foresight to put at least 30 per cent of their resource revenues into a permanent fund.”

Alberta, by contrast, didn’t stick with its original plan of setting aside 30 per cent of its non-renewable resource income when the fund was set up in 1976. By 1987, all that resource revenue went straight to general revenues and the fund has “stagnated” ever since, Poelzer notes in a report.

Poelzer also sees echoes of Norway in the North Dakota approach, as Norway, too, was a poor jurisdiction before its oil boom.

“You understand why it’s important to save for the future because bad times can return, and I think that’s the perspective North Dakota took as well,” he says.

’ve gone through tough times … so they know they have

ay’s, but some of them have their own strengths, which

Two sovereign wealth funds admired for their structure and fiscal discipline have been set up in Chile, a country heavily reliant on exports from copper mining. (Jorge Saenz/Associated Press)

In Chile, a country heavily reliant on copper exports, two mineral funds have been established. The admirable qualities there are the structure and fiscal discipline exercised around the funds.

"They had some withdrawals a few years ago, and then they were able to put that money back," says Maduell.

That doesn't always happen. Observers point to Ireland as an example of a country where the sovereign wealth fund moved off its original path.

The Irish National Pensions Reserve Fund had been "very well run," says Schena.

But when two big Irish banks ran into trouble, the fund was used to bail them out. Not unlike Alberta, where the government's own figures show that $36.5 billion in investment income from the Heritage Fund has been transferred into general revenues in recent decades, to look after everything from health care and education to roads and social programs.

Two years ago, when oil prices were rocketing up, Alberta announced it would change tack and begin keeping the investment income in the fund, starting in 2016. Premier Jim Prentice is now saying that by 2019/20, 25 per cent of energy revenues will go to the fund. Over time, he says, that will rise to 50 per cent.

"I truly believe that one of the great mistakes we have made has been to let our commitment to the Heritage Fund lapse, and that is something I will change," he told Albertans in a televised address this week.

The Irish case is "an example of a fund where…it was used to save the country, but that wiped out the wealth fund pretty much," says Schena.

However sovereign wealth funds grow, they seem poised to be a bigger global investment player.

"They're becoming an investor class that's being taken seriously," says Maduell.

"It's another large investor class that's going to be on par competing … with the big players doing deals."

CBC news

Norway's sovereign wealth holds lessons for Canada

Established in 1990, Norway's heritage fund is now worth $1 trillion

By Susan Ormiston, Mar 20, 2015

In Stavanger, a quaint, seaside city on Norway's coast, a local newspaper publishes a series called "The Oil Kids" that reports on the lifestyles of wealthy second-generation beneficiaries of Norway's offshore oil riches.

"If you compare to our parents or grandparents which built this country, I think we're a little bit spoiled," admits Bjorn Knudsen, whose father worked for a large North Sea oil company.

Fifty years ago, Stavanger's biggest industry was canning herring. Now, this city is the country's de facto oil capital.

"We are extremely lucky," says Bjorn's wife, Kristin Alne, a production engineer for Det Norske Olije-selsksap, an offshore oil company. "There are only five million of us [in Norway], and someone several decades ago was really smart to deal with the income from the oil industry to generate the welfare of this country as a whole."

'Someone several decades ago was really smart to deal with the income from the oil industry to generate the welfare of this country as a whole.'- Kristin Alne, Norwegian engineer

They are lucky and Norway was smart. So smart that decisions made decades ago to bank the taxes from rich oil fields are now paying for their future at a time when oil-rich Alberta faces a multibillion-dollar deficit.

In the middle of Stavanger, a hulking oil museum charts oil's legacy and how it turned Norway from poor to prosperous. A real-time ticker counts up the Krone in the oil fund.

Norway today sits on top of a $1-trillion Cdn pension fund established in 1990 to invest the returns of oil and gas. The capital has been invested in over 9,000 companies worldwide, including over 200 in Canada. It is now the largest sovereign wealth fund in the world.

By contrast, Alberta's Heritage Savings Fund, established in 1976 by premier Peter Lougheed, sits at only $17 billion Cdn and has been raided by governments and starved of contributions for years.

"For the last 10 years, when nothing went into the Alberta fund, and we put a lot of money aside, the profit went out of Canada," says Rolf Wiborg, a petroleum engineer who recently retired from Norway's public service.

Norway's ethos

Kristin Alne, an engineer with the oil company Det Norske Olijeselskap, admits that Norwegians have been 'extremely lucky' to reap the rewards of their oil resources. (Kristan Alne)

Wiborg, who studied at the University of Alberta and worked for a Norwegian oil company before joining Norway's Petroleum Directorate, says the key to success has been Norway's ethos of sharing and a commitment to never waver from that goal.

"We don't change our policies in Norway, with changes in the oil price – you can't do that," he says. "Lougheed's government in Alberta knew that, they made policies and then they left them behind."

Oil and gas make up 25 per cent of Norway's GDP, so the recent plunge in oil prices should have set off alarm bells in Oslo. Thousands of workers have indeed been laid off, but parliament is not painting a dire forecast for 2015.

“We all agree we’re not facing a crisis,” says Siv Jensen, Norway’s finance minister.

Twenty-five years ago, when Norway set up its oil fund, it demanded high taxes from oil companies – 78 per cent after profits and the costs of research and exploration. One hundred per cent of those taxes were banked.

The government is allowed to tap into the fund, but only up to four per cent. That leaves the principal untouched.

“We have low unemployment, we have growth, we have a huge surplus – that’s a very robust start in the face of declining oil prices”, she says confidently.

The Canadian story

Norway did well by those rules. In contrast, Alberta and Saskatchewan – both endowed with oil and other mineral resources – took different routes with vastly different results.

Alberta and Saskatchewan both set up heritage funds (in 1976 and 1978, respectively), but Alberta, for example, only put in 30 per cent of royalties. The funds were consistently raided by governments of the day, and in Alberta, contributions petered out altogether by 1987. The Saskatchewan fund was terminated in 1992.

Once a city built on herring canning industry, Stavanger has more recently become Norway’s de facto oil capital. (Corinne Seminoff CBC News)

Those two provinces reveal important failures in the Canadian experience, says Greg Poelzer, a professor at the University of Saskatchewan and author of a recent paper on lessons from Norway.

“First, the failure to contribute annually means the fund will not grow and one-time earnings from non-renewable resources are lost forever,” he says.

“Second, governments should only use the interest, otherwise governments will overspend, putting programs at risk when the prices fall, as they always do.”

Norway is not immune to oil’s fluctuations. Statoil, a Norwegian company that is 67 per cent owned by Norwegians (another fiscally wise decision, according to Rolf Wiborg), has shed eight per cent of its workforce, with more to come.

“This is the lean approach, fundamentally,” says Statoil CEO Eldar Saetre, explaining that the big oil companies have to bring down the costs of production, and automate more of it.

Saetre says the industry is in a phase of permanent reduction and downsizing. “This is not about taking down activity and then thinking it will come back,” he says.

Diminishing resources

Norway’s conventional oil reserves – like those in most of the world – are diminishing. Bente Nyland, head of Norway’s Petroleum Directorate, says development will continue on a large, promising new find, Johan Sverdrup, but many of the North Sea fields are maturing.

“The main impact we see is that exploration is put on hold,” she says. All the more reason to be vigilant about what comes out of existing fields. “Our goal is to ensure the benefit from the oil activity goes into the Norwegian pension fund.”

Like petro-economies around the world, Norway is facing a future where oil is not the golden goose it once was.

Geologist Farouk al Kasim helped mastermind Norway’s management of its oil reserves. For that, he was knighted by the Norwegian king in 2012. (Corinne Seminoff CBC News)

“We are facing a turning point where oil and gas will no longer be the engine of growth,” warns Finance Minister Jensen. “We need to make sure that we are able to transform our economy towards broader markets.”

But for now, the country’s smart planning is a significant hedge against an uncertain future, says Farouk al Kasim, an Iraqi geologist who emigrated to Norway in 1968.

The Norwegians asked the former senior executive with Iraq’s Petroleum Company to evaluate some early seismic data. Convinced Norway would soon become a major oil player, Al Kasim helped design the management of the resource.

‘It is nice to have the fund behind us, because without it we would have been a very worried nation.’ - Farouk al Kasim, geologist

“They were very determined that the major share of the profit would have to be to the citizens of the country, and that’s how it is today,” says al Kasim, who was knighted in 2012 by the Norwegian king for his expertise managing Norway’s resource.

But what about today, with the price of oil half of what it was six months ago?

“It is nice to have the fund behind us, because without it, we would have been a very worried nation.”

HUFF POST POLITICS

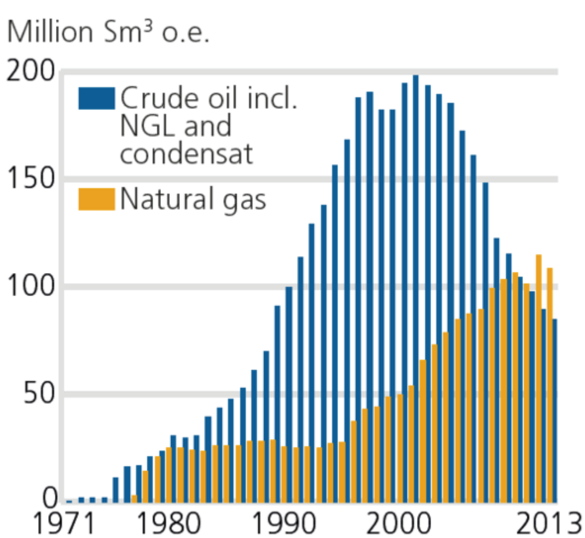
The Norwegian Government Pension Fund -- A Success Story

Mona Elisabeth Brother, 01/19/2015

The history of the oil and gas industry in Norway is a saga of bold political decisions, rapid world-class industrial development, and investing oil income for future generations. We Norwegians might be boring -- but with that comes a love for saving and long-term thinking.

Norway is Europe's largest oil producer, the world's third-largest natural gas exporter after Qatar and Russia, and an important supplier of both oil and natural gas to other European countries.

Production of oil and natural gas



source: Statistics Norway 2014

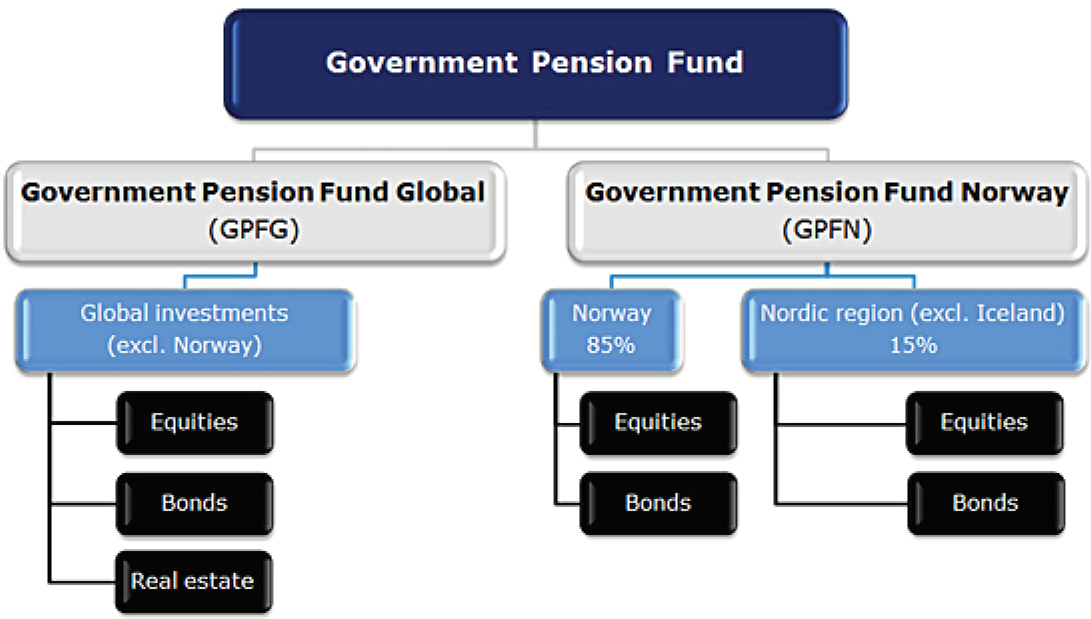
According to the Oil & Gas Journal (OGJ), Norway had 5.83 billion barrels of proven crude oil reserves as of January 1, 2014, the largest oil reserves in Western Europe. The enormous income to the state from the industry made it possible to create a global pension fund that now owns more than one per cent of global share value.

During the last generation, Norway's economy has been based on large revenues from oil and gas exports, deriving from the early exploration in the 1960s and 70s. The production in the Norwegian sector of the North Sea, and later moving northwards towards the Barents Sea, gave grounds for a surplus in the national economy. The Norwegian parliament, Stortinget, concluded that the surplus was not to be used in the national economy.

Stortinget established the Government Pension Fund in 1990. The political consensus has only broadened over time amongst all political parties. The reason for the creation of the fund was to counter the effects of the possible forthcoming decline in income, and to smooth out the disruptive effects of highly fluctuating oil prizes. The purpose of the fund is to invest parts of the large surplus generated by the Norwegian petroleum sector in different investment choices abroad. The main part of the surplus is comprised of taxes collected from companies, but also payments for licenses to explore and the State's direct financial interest contributes to the fund.

Investments for Norwegians in the future: Long-term, spread of risk, full transparency.

The fund has a long-term perspective, and its primary objective is security for Norwegians in the future. In 2006, the Fund got its current name: “the Government Pension Fund Global (GPFG)”. This was part of a broader pension reform, highlighting also the Fund’s role in supporting government savings necessary to meet the rapid rise in public pension expenditures in coming years. A sound long-term management of the Fund contributes to intergenerational equity, by allowing both current and future generations to benefit from the petroleum revenues. However, the Fund is not earmarked for pension expenditures. 100 percent of the government’s petroleum revenues goes directly into the GPFG.



source: Norwegian Ministry of Finance 2014

The government has set a limit on annual withdrawals from the fund of 4 per cent of the fund’s assets, regardless of whether the fund actually earned more or less than that in a given year. The average tax percentage for the companies in question is 78 per cent of the surplus.

Managing the Fund: Challenges and Opportunities

The numerous challenges in managing the fund have been resolved in different ways. First ,investments are long-term. Good financial return over time hinges on sustainable development in economic, environmental and social terms. It also hinges on well-functioning, efficient and legitimate financial markets.

Second, the strategy is to purchase relatively small blocks of shares in many companies; on average, the GPFG owns 2 per cent of a company`s shares and never more than 10 per cent. This is a policy in order to both spread the risk and to avoid creating a perception of Norway as a threatening investor. The capital of the GPFG is in its entirety invested abroad in foreign currency. The fund holds 60 per cent of its assets in equities, 35 per cent to 40 per cent in fixed income and as much as 5 per cent in real estate abroad.

The management of petroleum revenues in general and the GPFG in particular is characterised by a high degree of transparency and disclosure of information. This helps build public support for a sound management of petroleum revenues, and reduces the risk of poor governance. Transparency is also important in order to gain trust from the global community. Internationally, it can often be a perception that funds managed by states think in political terms when constructing an investment strategy. Norway has by being open and transparent managed to create trust from the global market.

The size of the GPFG and setting a golden standard in ethics

In 2014, the GPFG passed the 6000 billion NOK milestone. The GPFG market value has grown substantially the last year, from 5,038 billion NOK at end of 2013 to more than 6,000 billion NOK today. The market value equals about 1000 billion Canadian dollars.

An important political guideline is the agreed budgetary rule that states that no more than 4 per cent of the capital value should be spent each year for national purposes. The total value will under this conservative management rule reach 7140 billon NOK by January 2019.

As one of the biggest national investments funds in the world, the GPFG has the potential to make a huge impact on corporate governance markets such as Europe, and China. With huge impact comes huge responsibility, and Norway has acknowledged this responsibility by establishing an ethical council and creating ethical guidelines for the Fund. Stortinget established these guidelines in 2004, and they receive broad political support. The fund cannot invest money in companies that directly or indirectly contribute to killing, torture, deprivation of freedom, or other violations of human rights in conflict situations or war.

Contrary to belief, the Fund can make investments in a number of arms-producing companies. However, there are restrictions and the Fund cannot invest in weapons such as nuclear arms. Child labour, forced labour, gross environmental degradation and corruption would mean exclusion from the fund’s portfolio.

Internationally this way of managing a financial fund has raised questions. Should the Fund make such decisions at all? In Norway, the perception is different and the debate often includes the question whether or not to exclude more companies. The Ministry of Finance decides on whether companies are to be excluded from the investment universe, based on recommendations from the Council on Ethics. The guidelines contain the exclusion mechanism for companies that produce specific products or that are responsible for or contribute to grossly unethical behaviour. Walmart was, for example, screened out some years back based on its violations of employment and human rights. In 2010, 17 tobacco companies were banned from the Fund's portfolio.

The fund will make its investments in international equity and fixed-income markets and real estate worldwide. Risk diversification and sound financial return shall still shelter the domestic non-oil economy from unsound fluctuations in inter alia oil prices. In Canada, the GPFG has made investments in close to 300 companies with approximately 11 billion Canadian dollars.

Looking Ahead: environmental responsibility

Early this December the Minister of Finance of Norway, Siv Jensen from the Progress Party, received recommendations from an expert panel on how the government should address the issue of climate gas emissions from coal and petroleum companies and the investments in such companies. The panel believe that active ownership and engagement are appropriate tools for the Fund to use to address climate-related issues. They recommend ways of enhancing the Fund's efforts in this area, and propose that the Fund continues to support relevant climate change research. They also propose a mechanism, which excludes the worst cases of climate offenders from the Fund on a case-by-case basis.

The Fund will continue to be a well-diversified, global financial investor and not a policy tool for the government, says Finance Minister Siv Jensen.

Proud of its savings for the future.

The Norwegian people, across party lines, are generally proud of the Fund. Even when Norway voted in a new government last year, the rules for the fund stayed intact. Discussion around the fund is a daily exercises wherein Norwegians engage easily. Should more petroleum revenues be spent in Norway, and in that case, would really inflation grow? Is the fund financially safe, given the abrupt and unforeseen changes we have seen in the international stock markets during the last years? What ethical, if any, guidelines should be in place? In addition, can we still invest in non-renewable energy, like coal? As we engage in the discussions around the fund, it is clear that Norway's Government Pension Fund is *more* than a national instrument for savings - it represents a nation-wide philosophy to safeguard and build financial wealth for future generations.

As oil prices are deeply plunging, the effect on Norwegian economy is not as devastating as in other oil economies. Still, income from the oil companies, designated to furnish the Pension Fund in 2015, could easily not reach 4 per cent. This could, in the long run, diminish the government's possibility to spend up to 4 per cent of its value in the state's yearly budget.