



NORWEGIAN MINISTRY
OF TRADE AND INDUSTRY

Report to the Storting (White Paper) No. 13 (2006–2007)

An active and Long-Term State Ownership

The following text is an unofficial translation of Chapter 1–7 of the report.

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*Recommendation of 8 December 2006 by the Ministry of Trade and Industry,
approved by the Council of State on the same day.
(The 2nd Stoltenberg Government)*

1 Introduction and summary

It is the basic position of the Government that the Norwegian State shall be an active, long-term and predictable owner of some important Norwegian companies. Through its ownership, the State aims to contribute to a sound and stable development of business and industry in Norway. The present Report to the Storting (White Paper) concerns companies that are wholly or part-owned directly by the Norwegian Ministries. The Report clarifies the Government's objectives for state ownership of the individual enterprises. This will serve to provide a better basis for active ownership. It will also ease the strategic undertakings of the board of directors of companies in that it clarifies the expectations and objectives of the State in its role as owner.

Through its ownership, the Norwegian State shall contribute to the companies' long-term growth and industrial development. This dictates the need for an active ownership policy to set out the expectation for the boards to pursue high ambitions. The Government will impose requirements regarding return on investment and dividends which underpin the companies' long term objectives. State ownership must be exercised in line with generally accepted corporate governance principles.

The Government will assess the size of its shareholdings in each individual company from the viewpoint of an active ownership and the society's needs. The Government aims for the State's involvement in Norwegian business and industry to remain at the same level as it is at present. In line with this, the Report to the Storting serves notice that the Government will propose that the Storting revoke mandates granted in previous parliamentary periods to reduce State shareholdings through divestment of shares.

The Government has long-term objectives for the State's ownership of companies. These entail that considerations with respect to the environment, restructuring, diversity, ethics, research and development must be taken into account by the board of directors in the interests of promoting long-term development. If wholly-owned companies are instructed to make investments or undertake other activities that their board does not find commercially sound, such companies shall be compensated through separate allocations.

Processing of Norwegian raw materials in Norway is an important objective for the Government, provided a sound financial basis. Enterprises that are central to interaction with research and innovation environments should be further developed in Norway. This is important in order to maintain and

strengthen business and industry clusters and value chains.

The Government attaches great importance to assessing the work of the board of directors properly and systematically, and to composing competent boards qualified to serve the best interests of shareholders.

The Government has presented proposals for amendments to the Public Limited Companies Act to enable increased shareholder influence and access to information concerning executive remuneration, among other things in connection with the exercise of share options. Research into share-based remuneration gives little indication that options schemes are necessary in the type of companies in which the State is normally a shareholder. The Government proposes that the State votes no on proposals for share options in companies comprised by this Report to the Storting. In addition, the Government expects the boards to put a ceiling on the value of any incentive arrangement relative to base salaries. This is an important instrument for gaining control over executive pay trends.

The Government wishes to contribute to greater transparency and information concerning state ownership of companies. The Ministry of Trade and Industry will therefore be producing a new annual document to provide a public statement on the Government's ownership policy as it is communicated to the Storting, and in conformance with guidelines laid down by the Storting. This document, which will be coordinated with the State Ownership Report, will set out the State's positions on areas such as corporate governance, R&D, ethics, equality, environmental issues, executive remuneration, requirements regarding operational efficiency, return on capital, reporting, etc. The Government will continue and develop the current organisation of the state ownership administration.

In line with the Soria Moria Declaration (on the Norwegian governments political commitments for the next four years), the Government will pursue a predictable dividend policy, and in this Report refers to the State's long-term dividend expectations for the wholly-owned companies.

There is no proposal to amend existing legal regulations governing the determination of dividends in the wholly-owned companies.

The Government will propose to establish a separate government fund for marine industries. Further, the Government will review the need for and the possible structure of government funds in order to promote improved access to capital in areas where a special need is identified. An evaluation of the need for extended State involvement in seed funds will be included in this. An initiative will be taken for a review of entrepreneur financing and assessment of the establishment of an entrepreneur bank. In addition, the Government will prioritise measures to promote increased commercialisation of research-based business concepts.

Chapter 2 of the Report presents a summary of the scope and development in commercial ownership in recent years. Chapter 3 indicates how ownership administration is organised, including how separation of roles and rules of law governing state ownership of companies. It also sets out key corporate governance principles, to which the Government attaches importance in its exercise of state ownership. Chapter 4 outlines corporate governance of state-owned enterprises in some other OECD countries. The preparatory committee on state ownership (*Statseierskapsutvalget*) submitted its report on 16 March 2004. It made a number of recommendations and assessments concerning state ownership. These are presented in Chapter 5, together with key statements from the hearing. Chapter 6 sets out assessments of access to capital in Norway. The Government's policy for active and long-term ownership is set out in Chapter 7. This chapter presents assessments concerning corporate governance of state-owned enterprises and social responsibility, the objects of state-ownership and organisation. The preparatory committee on state ownership's opinions and recommendations are described in the process. For a more detailed discussion of the Government Pension Fund administrated by Norges Bank and Folketrygdfondet (National Insurance Scheme Fund), readers are referred to Report to the Storting no. 1 (2006–2007).

2 An overview of the scope and development in the state ownership of companies

2.1 Scope

Direct state ownership of Norwegian enterprises is extensive. The State's direct ownership varies from shareholdings in the country's largest stock exchange listed companies to small wholly-owned companies with purely sector-policy objectives.

The State has just under 50 wholly-owned companies which are legally organised as either private limited companies, State enterprises, health care enterprises or other types of special law companies' (i.e. State enterprises with special authority). Of the companies wholly-owned by the State, just under ten may be characterised as commercial companies. They are in every respect operated on commercial criteria in competition with other enterprises. The non-commercial enterprises are dominated by the health care enterprises which employ approximately 100,000 individuals and are financed by a national budget allocation of NOK 70 billion per annum. Other examples of enterprises in which the State exercises active sector policy are Norsk Tipping AS (betting) and AS Vinmonopolet (alcohol). Companies such as Posten Norge AS (postal services) and NSB AS (rail services) have intermediate status in that they largely operate in competitive markets, but in certain areas play an important role in sector policy.

The State owns substantial share blocks in the public limited companies Statoil ASA, Norsk Hydro ASA, Yara International ASA, SAS AB, Kongsberg Gruppen ASA, Cermaq ASA, DnB NOR ASA and Telenor ASA. In 2005, these companies had total revenue of approximately NOK 770 billion and made a total net profit of some NOK 69 billion.

At year-end 2005 the market value of the listed companies amounted to a total of NOK 779 billion. The State's share of these assets was NOK 428 billion. In 2006 the State received NOK 19 billion in dividends from these companies for the financial year 2005.

This Report to the Storting focuses primarily on exercise of ownership in the commercial parts of the State's direct ownership, i.e. the ownership which is subject to business criteria. In addition,

the largest and most important sector policy enterprises are discussed.

The present report does not deal with the extent of the State's ownership in the cultural sector for example, which pursues objects other than commercial profitability. However, various companies engaged in research and development are discussed in the report. Table 2.1 presents an overview of the companies discussed in detail.

In Report to the Storting no. 3 (National Accounts) each year a complete listing is presented of the State's direct ownership.

The State's asset management is also performed extensively via the Government Pension Fund. Readers are referred to Report to the Storting no. 1 (2006 – 2007) for a detailed review of the Government Pension Fund.

2.2 Development trends in the State's ownership

Over the course of history, the Norwegian State has played an important role in the development of



Figure 2.1 Norwegian defence technology has contributed to civil technology development. One example is the development of the business area of dynamic positioning in Kongsberg-Gruppen. The illustration shows the production vessel in the Åsgard A field, deploying dynamic positioning.

Photo: Øyvind Hagen, Statoil ASA

Table 2.1 State shareholding and ministerial affiliation

Name of company	Shareholding	Ministry responsible
IndustriTjeneste AS	53.0	Ministry of Justice and the Police/Ministry of Labour and Social Inclusion
The Norwegian Centre for Informatics in Health and Social Care (KITH)	80.5	Ministry of Labour and Social Inclusion/Ministry of Health and Care Services
Statskonsult AS	100.0	Ministry of Government Administration and Reform
AS Vinmonopolet	100.0	Ministry of Government Administration and Reform
Helse Midt-Norge RHF	100.0	Ministry of Health and Care Services
Helse Nord RHF	100.0	Ministry of Health and Care Services
Helse Sør RHF	100.0	Ministry of Health and Care Services
Helse Vest RHF	100.0	Ministry of Health and Care Services
Helse Øst RHF	100.0	Ministry of Health and Care Services
Norsk Eiendomsinformasjon AS	100.0	Ministry of Justice and the Police
Uninett AS	100.0	Ministry of Education and Research
Universitetscenteret på Svalbard AS	100.0	Ministry of Education and Research
Norsk Samfunnsvitenskapelige Datatjeneste AS	100.0	Ministry of Education and Research
Simula Research Laboratory AS	80.0	Ministry of Education and Research
Norsk Tipping AS	100.0	Ministry of Culture and Church Affairs
Norsk Rikskringkasting AS	100.0	Ministry of Culture and Church Affairs
Kommunalbanken AS	80.0	Ministry of Local Government and Regional Development
Statskog SF	100.0	Ministry of Agriculture and Food
Veterinærmedisinsk Oppdragssenter AS	51.0	Ministry of Agriculture and Food
Entra Eiendom AS	100.0	Ministry of Trade and Industry
Flytoget AS	100.0	Ministry of Trade and Industry
Venturefondet AS	100.0	Ministry of Trade and Industry
Mesta AS	100.0	Ministry of Trade and Industry
Argentum Fondsinvesteringer as	100.0	Ministry of Trade and Industry
BaneTele AS	50.0	Ministry of Trade and Industry
Electronic Chart Centre AS	100.0	Ministry of Trade and Industry
SIVA SF	100.0	Ministry of Trade and Industry
Statkraft SF	100.0	Ministry of Trade and Industry
Store Norske Spitsbergen Kulkompani AS	99.9	Ministry of Trade and Industry
Bjørnøen AS	100.0	Ministry of Trade and Industry
Kings Bay AS	100.0	Ministry of Trade and Industry
Telenor ASA	54.0	Ministry of Trade and Industry
Kongsberg Gruppen ASA	50.0	Ministry of Trade and Industry
Nammo AS	50.0	Ministry of Trade and Industry
Norsk Hydro ASA	43.8	Ministry of Trade and Industry
Cermaq ASA	43.5	Ministry of Trade and Industry
Yara International ASA	36.2	Ministry of Trade and Industry
DnB NOR ASA	34.0	Ministry of Trade and Industry
Eksportfinans AS	15.0	Ministry of Trade and Industry
SAS AB	14.3	Ministry of Trade and Industry
Statoil ASA	70.9	Ministry of Petroleum and Energy
Statnett SF	100.0	Ministry of Petroleum and Energy
Gassco AS	100.0	Ministry of Petroleum and Energy
Enova SF	100.0	Ministry of Petroleum and Energy
Petoro AS	100.0	Ministry of Petroleum and Energy
Avinor AS	100.0	Ministry of Transport and Communications
NSB AS	100.0	Ministry of Transport and Communications
Posten Norge AS	100.0	Ministry of Transport and Communications
BaneTele AS	100.0	Ministry of Transport and Communications

Source: Ministry of Trade and Industry

Box 2.1 State-owned enterprises provided a platform for the emergence of business clusters at Kongsberg and Raufoss

The industrial parks at Kongsberg and Raufoss are examples of successful readjustments in communities that were previously more heavily reliant on a few cornerstone enterprises.

Kongsberg today represents a strong industrial park, with a cluster made up of more than 110 knowledge based enterprises. Several of these are global leaders in subsea, offshore, maritime, automotive, aviation, defence and aerospace technologies. Many of the core enterprises arose out of the former civil divisions of the armaments factory, Kongsberg Våpenfabrikk. Over the last two decades, enterprises in the Kongsberg cluster have doubled their employment level to more than 9,000 people, of which some 5,000 are employed in the Kongsberg region. Annual turnover has increased seven times over and amounts to approx. NOK 17 billion. The export share of the region is in excess of 60 per cent (2005).

The business cluster at Raufoss arose out of Raufoss ASA and is a result of more than a century of experience in international industrial development. The core areas are processing of lightweight materials and automated manufacturing. These are core competencies for all the enterprises in the cluster, and areas in which the cluster is a global leader. The aim is to establish a national centre of competence. The enterprises will retain and strengthen their market position through drives such as joint ventures on targeted R&D projects. Partnerships with educational and competency centres regionally, nationally and internationally will be central. The Raufoss industrial park has developed into a vital business cluster of 40 enterprises with more than 3,000 employees. Annual turnover amounts to NOK 4.5 billion and its export share is 85 per cent.

Nammo AS currently accounts for around 500 jobs in the industrial park and is a very important contributor to further business development in the region. Ragasco AS originated in the defence activities at Raufoss. The company is an example of a newly established company which manufactures gas cylinders in composite materials.

Source: Kongsberg Centre of Expertise – Systems Engineering and Raufoss Centre of Expertise – Lightweight materials

tion considerations, industry and district development and the need to remedy market failures has been the main reason for the State's involvement as an owner. After World War II, the Norwegian State contributed capital to ensure the development and sustainability of industry in Norway. The rationale for State involvement was the restricted access to private capital that coincided with the political wish for industrial renewal in Norway. This led to the establishment of businesses such as Årdal og Sundal Verk and Norsk Jernverk.

Following the discovery of oil on the Norwegian Continental Shelf, the Government saw it as important to ensure national governance and control of the revenue flows from these potentially large natural resources, while also ensuring Norwegian participation in industrial development through its ownership of Statoil and Norsk Hydro.

Security policy and defence interests dictated the State's involvement in the ammunitions factories of Raufoss Ammunisjonsfabrikker. The State still has a major presence in the defence industry through its shares in Nammo AS and Kongsberg Gruppen ASA.

The State also has assumed ownership in order to ensure specific sector-policy objectives. There are several examples of this type of ownership. The State's ownership of the Norwegian Broadcasting Corporation is intended to ensure the provision of broadcasting with general public appeal. The health care enterprises were established to provide sound health care provisions for the public, and Avinor AS to provide safe and efficient aviation.

There are further examples of state ownership arising more arbitrarily. The banking crisis in the early 1990s resulted in that the State took over the shares in a number of banks. Through the Government Bank Investment Fund and the Government Bank Insurance Fund, the State ensured that the important role played by the banks in society would be safeguarded for a period of more than five years. All these shareholdings were eventually divested, with the exception of the State's shares in DnB Holding ASA, which later merged with Gjensidige NOR ASA. The State's holdings in the merged DnB NOR Group currently amount to 34 percent.

Separation of businesses from State administration

From the 1990s on, the State effected major regulatory reforms in several sectors. As part of these reforms, State production activities were reorganised and subjected to competition. Telenor was divested from State administration in 1994. Other examples of this type of reorganisation of State

Norwegian industry and business activity. The aim of exercising control over natural resources and associated industrial production enterprises, alloca-

enterprises occurring in the 1990s are Grødegaard, Norwegian State Railways, Post Norway, Statkorn Holding, Statkraft and Statnett.

Until 1 January 2003, the Civil Aviation Authority was an enterprise under public administration, but was then restructured and split off as a separate limited company under the name of Avinor AS, cf. Bill to the Storting no. 1 Supplement no. 2 (2002–2003). The Government is currently evaluating the organisation and corporate affiliation of Avinor AS and will be presenting its findings in the forthcoming Report to the Storting concerning Avinor AS's activities.

As of 1 January 2003 production activities in the Public Roads Administration (Statens Vegvesen) were split off as a separate private limited company under the name Mesta AS, cf. Bill to the Storting no. 1 Supplement no. 1 (2002 – 2003). Mesta AS is a large-scale provider of services in the operation, maintenance and expansion of the road network in Norway and also operates in other markets. During 2006, all operating and maintenance contracts for the Public Roads Administration will be exposed to competition.

The second Bondevik Government planned to gradually put certain National Rail Administration tasks associated with operation and maintenance out to competitive tender. Further to this programme, parts of the National Rail Administration's production activities were established as a separate private limited company under the name of Baneservice AS, cf. Bill to the Storting no. 1, Supplement no. 2 (2004–2005). However, while the Government has suspended its plans to put all National Rail Administration activities out to tender, Baneservice will be retained as a private limited company under the Ministry of Transport, cf. Bill to the Storting no. 1 (2005 – 2006) concerning amendment to Bill to the Storting no. 1 in the 2006 national budget.

Statskonsult AS was established as a private limited company with accounting effect from 1 January 2004. The rationale for the conversion of Statskonsult into a private limited company is set out in Bill to the Storting no. 1 (2003 – 2004).

Stock exchange listings

Telenor ASA was listed on the stock exchange (Oslo Børs) on 4 December 2000, followed by Statoil ASA on 18 June 2001.

On 25 March 2004 Yara International ASA was demerged from Norsk Hydro ASA and listed on Oslo Børs. Yara International ASA continues Norsk Hydro ASA's global agricultural business, while Norsk Hydro ASA continues as a company

with the main emphasis on energy and aluminium. At the demerger, 80 per cent of the shares in Yara International ASA were distributed proportionally to Norsk Hydro ASA shareholders and 20 per cent were sold on the market. The State's holding in Yara International ASA is 36.2 percent. The demerger of Yara International ASA is set out in Bill to the Storting no. 33 (2003–2004), cf. Recommendation to the Storting no. 97 (2003 – 2004) and Storting Resolution of 18 December 2003.

Cermaq ASA was listed on Oslo Børs on 24 October 2005. The State reduced its shareholding from 79.8 percent to 43.5 per cent through the listing. This was done by the company issuing five million shares and the State selling 29.2 million shares, cf. Bill to the Storting no. 25 (2005 – 2006) and Recommendation to the Storting no. 70 (2005 – 2006).

Sale of shares

In 2001 the State sold 81 per cent of its shares in Norsk Medisinaldepot ASA for NOK 468 million and thereby withdrew fully as a shareholder from this company.

In the same year, the State sold 66 per cent of its shares in Arcus ASA for NOK 340 million. The investment group that acquired these shares had pre-emptive rights to the remaining shares, and acquired these for NOK 210 million in the autumn of 2003.

Grødegaard AS is another company in which the State no longer has any shares. This company, originally operating as Statens Kantiner, was converted in 2001 from a state-owned enterprise into a private limited company. The Ministry of Trade and Industry took over administration of the company from the Ministry of Defence with effect from 1 January 2002. In spring 2003, ISS Norge AS bought into Grødegaard AS through a private placement of NOK 24 million, thereby obtaining a 48 percent stake in the company. In February 2005, the State sold off the remaining 52 percent of the shares in the company to ISS Norge AS for NOK 36 million.

NOAH Holding AS is a company which operate special waste plants. The company was set up in 1991 in order to establish processing capacity in Norway for organic and inorganic special waste. The State owned 70.9 percent of the shares in the company. The remaining shares were held by a number of leading industrial companies. The organic waste processing plant in Brevik was sold to Norcem AS in autumn 2002. In 2004 Gjelsten Holding AS acquired all the shares in NOAH Hold-

ing AS for NOK 80 million, of which the State's shareholding was NOK 56.7 million.

In 2001 and 2003 the State sold shares in A/S Olivin. 49 percent of shares were sold in 2001, while the remaining 51 percent were sold in 2003. North Cape Minerals AS acquired the two share blocks for NOK 400 million and NOK 345 million respectively.

SND Invest AS was an investment company with a portfolio of shares in some 100 relatively small and medium-sized non-listed companies and a few listed ones. The State sold its shares in the company in 2003. The total revenue to the State was somewhat in excess of NOK 1,150 million.

In Telenor ASA the State reduced its shareholding from 77.6 percent to 53.96 percent through two divestments in 2003 and 2004 to Norwegian and foreign institutional investors and private individuals. These divestments brought in NOK 16.5 billion for the State in sales revenue.

In 2004 and 2005, the State reduced its shareholding in Statoil ASA from 81.7 percent to 70.9 percent through the sale of 234 million shares to Norwegian and foreign institutional investors and private individuals. This divestment brought in NOK 22.4 billion for the State in sales revenue.

Share purchases

In 2003 DnB Holding ASA and Gjensidige NOR ASA merged into a single company. This resulted in a reduction in the State's shareholding in DnB Holding ASA from 47.78 percent to 28.1 percent in the merged DnB NOR Group. In respect of this merger, the Storting decided that it was desirable to ensure continued negative control within a merged DnB NOR. The merger was dealt with in Bill to the Storting no. 59 (2002 – 2003), cf. Recommendation to the Storting no. 212 (2002 – 2003) and Storting Resolution of 4 June 2003. The State purchased shares in the market to obtain a shareholding of 34 percent in 2003. In autumn 2004 and spring 2005 DnB NOR issued shares as part of an options scheme for its employees. This resulted in that the State's shareholding was reduced once again to less than 34 percent. After both of these share issues, in line with the Storting's precondition, shares were acquired in the market in order to restore the State's shareholding to 34 percent. The State thus acquired shares worth a good NOK 561 million. Through these transactions, the State has purchased shares worth a total of NOK 3.9 billion to bring its shareholding up to 34 percent.

Formerly, the State held 45 percent of shares in Nammo AS. The other shareholders in Nammo AS

were Swedish Saab AB with a shareholding of 27.5 percent and Finnish Patria Oyj with 27.5 percent. In the autumn of 2005, Patria made a deal with Saab AB to acquire Saab's shareholding in Nammo. The Norwegian Government opted under the authority of the applicable Storting mandate to exercise its pre-emptive rights under the shareholders' agreement, and increased the State's shareholding to 50 percent. The purchase price for 5 percent of the shares came to NOK 61.8 million. The acquisition was transacted in February 2006 and the matter was dealt with in Bill to the Storting no. 25 (2005 – 2006), cf. Recommendation to the Storting no. 70 (2005 – 2006).

Emissions

On 9 December 2003, the Storting resolved to supply Statkraft with equity of NOK 4 billion, cf. Recommendation to the Storting no. 71 (2003 – 2004).

The State assumed direct ownership of Flytoget AS from NSB AS with effect from 1 January 2003. One consequence of this was that Flytoget had to refinance loans made by NSB (Norwegian State Railways) on the private lending market. A long-term loan agreement was made conditioned on increased equity. In December 2003 therefore the Storting granted NOK 300 million in new equity to the company.

Through the issue of 5 million shares on its stock exchange listing in October 2005, Cermaq ASA was supplied with NOK 220 million in new equity. The State did not participate in this emission.

In December 2004 the Government presented a bill to the Storting proposing an injection of equity into BaneTele AS, cf. Bill to the Storting no. 35 (2004 – 2005). The Storting decided to raise share capital by NOK 120 million, cf. Recommendation to the Storting no. 108 (2004 – 2005). On 19 October 2006 the Storting decided to issue a mandate for the reduction of the State's shareholding in BaneTele AS through a private placing to Bredbåndssalliansen AS, which would supply the company with new equity of NOK 625 million. The private placing was effectuated on 16 November 2006, with Bredbåndssalliansen subscribing to 232,000 shares, thus reducing the State's shareholding to 50 percent.

Reorganisation at corporate level

In 2004, the SAS Group's air operations were reorganised according to a decentralised management model, with independent companies in Norway,

Sweden and Denmark. Following this, only the intercontinental division of the airline services are part of the parent company, SAS AB.

In autumn 2004 the State established a new corporate model in Statkraft. Most of the activities of Statkraft SF were transferred to underlying companies. Statkraft SF owns all the shares in Statkraft AS, along with leased plants and a few other assets. Statkraft AS now acts as a corporate centre and holding company for most of the Statkraft group's activities. The reorganisation is dealt with in Bill to the Storting no. 53 (2003 – 2004) and Bill to the Odelsting no. 63 (2003 – 2004), cf. Recommendation to the Storting no. 248 (2003 – 2004), Recommendation to the Odelsting no. 99 (2003 – 2004) and Storting Resolution of 14 June 2004.

Winding-up proceedings

The State owned 49 percent of the shares in Moxy Trucks AS when the board requested for bank-

ruptcy in February 2002. The bankruptcy proceedings were not completed until the first half of 2006.

Administration of the State's shares in DnB NOR ASA was transferred from the Government Bank Investment Fund to the Ministry of Trade and Industry in 2004. It was established that there was no need to create a new bank investment fund. The fund was therefore wound up and the Act regarding the Government Bank Investment Fund was abolished.

Raufoss ASA was delisted from Oslo Børs in spring 2004 and the decision to wind up the company was made the same year. Before the decision was made to wind up the company, all existing operating activities were sold to industrial owners who have largely continued Raufoss' activities.

2.3 Economic development

At the end of 2005, the value of the State's shareholdings in listed companies amounted to some

Table 2.2 Overview of the development in State assets in listed companies 31.12. 2001 – 30.06.2006. (NOK millions)

Company	State shareholding 30.06.2006	Value of State's shareholding 31.12.2001	Value of State's shareholding 30.06.06	Value growth for State	Realised for State in period ¹	Accumulated dividend to State in period ²	Net value growth for State in period ³
Cermaq ASA ⁴	43.54 %	2,289	3,383	1,094	1,288	158	2,540
DnB NOR ASA ⁵	34.00 %	14,880	35,113	20,233	-3,905	5,478	21,806
Kongsberg Gruppen ASA	50.00 %	1,448	2,100	652	0	114	766
Norsk Hydro ASA	43.82 %	43,925	93,624	49,699	1,897	8,355	59,951
Raufoss ASA ⁶	50.27 %	158	0	-158	0	0	-158
SAS AB	14.8 %	1,386	1,492	106	0	88	194
Statoil ASA	70.90 %	110,152	273,987	163,835	22,359	35,625	221,819
Telenor ASA	54.00 %	54,054	69,302	15,248	19,813	5,338	40,399
Yara International ASA ⁷	36.21 %	n.a.	9,460	9,460	564	528	10,552
Total for listed companies		228,292	488,461	260,169	42,016	55,684	357,869

¹ The column indicates the total from the sale of shares, issued shares and/or settlement for deleted shares held by the State. A minus sign indicates acquisition of shares.

² Including dividend provision for the State for the 2005 accounting year.

³ Column shows net value growth for the State incl. changes in shareholding.

⁴ Cermaq was floated on 24 October 2005. The value of the company at 31.12.2001 is the State's share of the posted capital.

⁵ DnB NOR ASA merged in 2003. The State reduced its shareholding from 47.3 per cent to 34 per cent in the merged company after having bought up shares on the stock exchange.

⁶ Raufoss ASA was delisted on 27 February 2004. Equity in the company was lost. The company came under administration on 1 July 2004.

⁷ Yara International ASA was listed on 25 March 2004. The initial values are implicitly entered under Norsk Hydro ASA.

Table 2.3 Trend in State assets by selected non-listed companies 31.12.2001 – 30.06.2006. (NOK millions)

Company	State share- holding 30.06.2006	Value of State's sha- reholding 31.12.2001	Value of State's sha- reholding 30.06.06	Increase in value for State	Accumula- ted dividend to State in the period	Accumula- ted sales pro- ceeds (+), capital injec- tions (-) and share acqui- sitions (-)	Net value growth for State in the period
A/S Olivin	0 %	151	–	(151)	87	345	281
Arcus-Gruppen ASA	0 %	168	–	(168)	15	210	57
Argentum Fondsinves- tering AS	100 %	2,477	2,884	407	300	(200)	507
Avinor AS ¹	100 %	–	7,640	7,640	178	(7,278)	540
Baneservice AS ²	100 %	–	143	143	4	(138)	8
BaneTele AS ³	100 %	224	128	(96)	0	(120)	(216)
Eksportfinans ASA	15 %	355	404	49	208	–	257
Electronic Chart Cen- tre AS	100 %	11	13	2	1	–	3
Entra Eiendom AS ⁴	100 %	3,928	7,266	2,606	570	–	3,176
Flytoget AS ⁵	100 %	–	793	793	0	(729)	64
Grødegård AS	0 %	24	–	(24)	0	36	13
Moxy Trucks AS ⁶	0 %	120	–	(120)	0	(5)	(125)
Kommunalbanken AS	80 %	743	1,066	323	110	(17)	415
Mesta AS ⁷	100 %	–	2,330	2,330	285	(1,900)	715
Nammo AS	50 %	177	392	215	69	(62)	222
NOAH AS	0 %	180	–	(180)	0	57	(123)
NSB AS ⁸	100 %	6,078	6,189	111	246	898	1,255
Posten Norge AS ⁸	100 %	2,193	5,288	3,095	1,057	(1,605)	2,547
SIVA SF ⁹	100 %	642	605	(37)	0	(143)	(180)
SND Invest AS	0 %	2,380	–	(2,380)	648	618	(1,114)
Statkraft SF	100 %	27,972	38,561	10,589	15,609	(4,000)	22,198
Statnett SF	100 %	4,511	4,822	311	1,616	–	1,927
Statskog SF	100 %	208	258	51	51	–	102
Store Norske Spitsber- gen Kulkompani AS	99.9 %	168	395	227	30	–	257
Venturefondet AS	100 %	–	100	100	0	(113)	(13)
Total selected non-lis- ted companies		53,409	79,277	25,868	21,083	(14,171)	32,780

¹ Avinor AS was separated from the Civil Aviation Authority on 1 January 2003.

² Baneservice AS was separated from the National Rail Administration as a private limited company on 1 January 2005. Based on book equity as at 31.12.2005.

³ BaneTele AS was separated from the National Rail Administration on 1 July 2001. The shares were transferred to the Ministry of Trade and Industry on 20 December 2002. The figures do not include the finalisation of the transaction with Bredbåndssalliansen AS.

⁴ Figures for Entra Eiendom AS are based on value-adjusted equity at 31.12.2005 plus profit for first half of 2006.

⁵ The shares in Flytoget were transferred from the NSB Group to the Ministry of Transport and Communications on 1 January 2003. The shares were transferred to the Ministry of Trade and Industry on 1 July 2004.

⁶ Moxy Trucks AS went into liquidation. The State's guarantee of NOK 30 million was utilized by the company in the liquidation proceedings.

⁷ Mesta AS was separated from the Public Roads Administration and established as a limited liability company on 1 January 2003. The shares were transferred to the Ministry of Trade and Industry on 1 July 2005.

⁸ NSB AS and Posten Norge AS were converted from their status of special law companies into limited liability companies on 1 July 2002.

⁹ Figures for SIVA are based on equity at 31.12.2005.

Source: Ministry of Trade and Industry

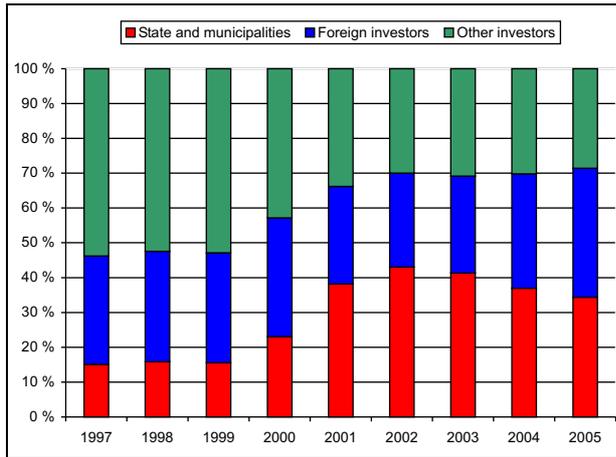


Figure 2.2 Overview of shareholder structure on Oslo Børs 1997–2005

Photo: Oslo Børs

NOK 430 billion. In addition, the State's shareholdings in other activities were posted at approximately NOK 130 billion, of which 52 billion derived from the health care enterprises, 30 billion from other sector-policy companies and enterprises together with 50 billion from non-listed commer-



Figure 2.3 State shares in Statoil ASA have the highest value at almost NOK 274 billion as at 30.06.2006.

Photo: Øyvind Hagen, Statoil ASA



Figure 2.4 Of the non-listed enterprises, Statkraft is worth the most. Photo shows one of Norway's biggest dams, Sysendammen in Hardangervidda

Photo: Statkraft

cial companies. The assets, in the listed companies especially, have increased in value substantially in recent years. At the same time, the State has received large amounts in dividends and from the sale of shares.

The State also became a substantial shareholder on Oslo Børs following the listing of Telenor ASA and Statoil ASA in 2000 and 2001. At year-end 2001 the value of shareholdings managed directly by the ministries amounted to NOK 224 billion, representing around 1/3 of the total stock market value. The value of the State's shares on the stock exchange had increased to NOK 430 billion at year-end 2005, or by NOK 206 billion over the period 2001 – 2005. Of this, 11 billion derived from Yara International ASA, which was split off from Norsk Hydro ASA in 2001 and listed as an independent company. The increase in value is due to a heavy increase in the market value of the State's shares on the exchange, which corresponds to the general trend in the stock market.

The value of dividends, State share purchases and sales have amounted to approx. NOK 78 billion over the last four years. This is equivalent to direct revenue of 35 percent of the value at year-end 2001. The profit on shares held by the State at year-end 2001 is 127 percent over the four-year period, taking into account changes in value. The State's investments in listed shares have thus provided a good return during this period.

Table 2.3 presents a selection of other companies with commercial objectives and some of the largest companies with sector policy objectives. The State's total assets from posted equity in these companies amounted to around NOK 79 billion at the end of the first six months of 2006. This equals

net value growth of almost NOK 26 billion since 2001, including the establishment of new companies over the period (Avinor AS, Baneservice AS, Flytoget AS and Mesta AS). If the new start-ups and divested companies are discounted, this value growth amounts to in excess of NOK 18 billion or 37 percent. Growth was strongest in Statkraft SF, Posten Norge AS and Entra Eiendom AS. From these companies the State has received a total dividend of more than NOK 20 billion over the last four years. Of this, NOK 15.6 billion derived from Statkraft SF. Net accumulated State aid over the same period amounted to NOK 7.8 billion. Net accumulated sales revenue, capital contributions and share acquisitions amounted to minus NOK 11.2 billion. Of this, NOK 10 billion were capital contribution in Statkraft SF.

The period 1997 – 2005 saw considerable shifts in shareholder composition on Oslo Børs.

The Norwegian private sector was the largest shareholder grouping on Oslo Børs from 1997 up until the listing of Statoil ASA in June 2001. Telenor

ASA was listed in December 2000. Prior to the listing of Telenor ASA, the private sector shareholding amounted to a good 50 percent. This fell to around 33 percent at the end of 2001 once both Telenor ASA and Statoil ASA had been listed. The shareholding has since fallen further to between 28 and 29 percent. Throughout the period, private enterprises have accounted for about half of private Norwegian shareholdings. This shareholding has been increasing, while share funds, pension funds and life insurance have declined significantly.

In recent years, foreign investors have been increasingly active on Oslo Børs, accounting for between 60 and 70 percent of daily turnover. In autumn 2005, foreign investors overtook public investors as the largest shareholder segment, and at year-end 2005, foreign investors owned 37.1 percent of assets on Oslo Børs. Foreign capital on Oslo Børs increased from NOK 165 billion in 1997 to around NOK 545 billion at year-end 2005. For comparison, at the same time, the Norwegian State held shares worth just under NOK 500 billion.

3 Organisation of state ownership

3.1 The State's various roles and the relationship with other policy instruments

The State's role as a policy-maker and market regulator is distinct from its role as an owner. In order to assure the legitimacy of these roles and foster confidence in the State's role as owner, these roles must be kept separate. The centralisation of state ownership and transparency on how the ownership is organized have served to reduce the conflict between the roles. Furthermore, in achieving specific objectives, it is often the case that regulatory measures, procurement of services etc. tend to be more precise and effective instruments than exercising shareholder rights.

The majority of the State's commercial shareholdings is currently administrated by the Ministry of Trade and Industry. One important exception is Statoil ASA, which is administrated by the Ministry of Petroleum and Energy. NSB AS and Posten Norge AS operate extensively in competitive markets, but in certain areas play a key role in sector policy. The State's ownership of these companies is therefore managed by the Ministry of Transport and Communications. Other sector policy companies such as the health care companies and AS Vinmonopolet are administrated by the Ministry of Health and Care Services, while NRK AS and Norsk Tipping AS are in the charge of the Ministry of Culture and Church Affairs.

The State normally exercises its authority through regulations (legislation and directions), by imposing conditions on licenses authorised by law, by granting licences, by signing contracts and by making executive decisions in individual cases. A related form of exercise of authority is the use of economic instruments such as procurement of services and levying of taxes and charges. The State is also able to exert its influence through dialogue with both public and private companies, in respect of expectations regarding corporate self-regulation and social responsibility for example.

The object of state ownership, competitive factors, budgetary and regulatory factors and so forth are all of great significance in determining which

instrument is best suited for achieving certain political objectives. The desirability of extensive transparency concerning the use of public funds, and § 75 d of the Constitution concerning the Storting's mandatory authority curb state ownership as an instrument. However, a number of companies were established specifically as political instruments. Examples of these are the special law companies: AS Vinmonopolet, Norsk Tipping AS, Innovasjon Norge (Innovation Norway) and the state-owned enterprise, SIVA (Industrial Development Corporation of Norway). Whether exercising the State's shareholder rights is an appropriate instrument in order to achieve a political objective must be considered in each individual case compared with other available instruments.

3.2 Frameworks for state ownership

3.2.1 Constitutional frameworks

Article 3 of the Constitution of the Kingdom of Norway prescribes that executive power is vested in the King (the Government). However, the Storting is authorised to issue general guidelines and to instruct the Government in individual cases, by means of plenary resolutions of the Storting or enactments of bills.

As a main rule, administration must be structured in such a way that the Government and the ministries are invested with instructive and supervisory authority over other bodies. This enables the Government and the ministries to achieve political objectives which may be founded in parliamentary resolutions, directives or the stated aims of the Storting. Insofar as it might be appropriate to establish separate administrative bodies for exercise of state ownership, these should then be organised in such a way that the Government and the ministry concerned are invested with instructive and supervisory authority over them.

Article 19 of the Constitution also regulates state ownership of enterprises:

«The King shall ensure that the properties and prerogatives of the State are utilized and administered in the manner determined by the Stor-

ting and in the best interests of the general public».

It is thus the Government that administrates the State's shares and exercises a proprietorial role in state-owned enterprises and special law companies etc. This provision expressly authorises the Storting to instruct the Government in matters pertaining to state ownership.

Pursuant to Part 3 of Article 12 of the Constitution, administration of state ownership is delegated to the ministry under which the company sorts. The minister's administration of ownership is exercised under constitutional and parliamentary responsibility.

Consent must be obtained from the Storting for any changes in State assets (acquisition and divestment of shares). Decisions regarding increase of capital are subject to the same requirements that apply to acquisition and divestment of shares.

State-owned enterprises will normally be permitted to buy and sell shares in other companies without requiring the Storting's consent if the transaction is in logical extension of the formally stated objects of the companies activities. However, in private limited companies where the State is the sole shareholder, the consent of the Storting must be obtained in respect of decisions that would change the State's commitment significantly. In part-owned companies, there might be issues of such magnitude that they must be brought before the general meeting (such as the demerger or merger of activities). Depending on the State's shareholding in the company it may be necessary to submit such issues to the Storting, cf. Recommendation to the Storting no. 277 (1976 – 1977).

The Office of the Auditor General conducts audits of the minister's (ministry's) administration of state ownership and reports the outcome of its audits to the Storting.

3.2.2 Other frameworks

Besides the frameworks that ensue from the Constitution and public administration law, exercise of ownership is chiefly governed by company law, competition law and stock exchange and securities law, which impose requirements on the exercise of ownership. Other central legal frameworks ensue from EEA regulations, among other things, rules regarding state aid.

Public ownership and the EEA Agreement

The EEA Agreement is essentially neutral on the question of public and private ownership, cf. articles 125 and 59 (2). At the same time, the prohibition against state aid in Article (1) of the EEA Agreement also applies to public undertakings. This limits the Government from favouring non-commercial interests in the exercise of state ownership. In order to determine when public funding to an enterprise constitutes state aid, the European Court of Justice and the EC Commission have devised the so-called market investor principle. If the Government furnishes capital on terms other than what a comparable private investor might have provided, this is then defined as «state aid». This means that the State is required to demand a normal market return on capital invested in an enterprise operating in competition with others. The EFTA's Surveillance Authority monitors Norwegian compliance with the rules regarding state aid.

Regulations for Financial Management in Government

Article 10 of the Regulations for Financial Management in Government state that:

Undertakings with executive responsibility for wholly-owned private limited companies, state-owned enterprises, special law companies or other independent legal entities wholly or part-owned by government shall produce written guidelines on the manner in which control and supervisory authority shall be exercised vis-à-vis each company or group of companies. A copy of the guidelines shall be filed with the Office of the Auditor General.

The State must, within applicable laws and rules, administrate its ownership interests in conformance with general principles of good corporate governance with special emphasis on ensuring:

- a) that the corporate legal form, the company's articles of association, financing and composition of the board are appropriate for the company's objects and ownership
- b) that exercise of ownership guarantees the equal treatment of all shareholders and underpins a clear division of authority and responsibility between the owning parties and the board
- c) that goals set for the company are achieved
- d) that the board functions satisfactorily

Management, monitoring and supervision and associated guidelines must be adjusted with the State's shareholding, the characteristics of the company, risk and significance.

One important principle in relation to limited companies, state-owned enterprises and special law companies is that the State's liability is limited to subscribed equity.

3.2.3 Administration of companies

The companies' management consists of the board of directors and a general manager. The corporate form of limited company and the other organisational forms employed for state-owned enterprises are based on a clear-cut division of roles between shareholders and corporate management. According to article 6 – 12 of the Limited Liability Companies Act/Public Limited Companies Act and similar provisions in legislation governing companies, administration of the company is vested in the board and the general manager. This means that the commercial management of the company and responsibility for this is vested in corporate management. The board and general manager are required to practice their administration based on the best interests of the company and the shareholders. Within the general and special frameworks prescribed by the Storting for the enterprise, the State as owner furthers its interests through the annual general meeting/corporate assembly. Through their administration of the company, the members of the board and the general manager are subject to a personal liability in damages and criminal law as prescribed by general company legislation.

3.2.4 The minister's authority in the company

The legal basis for the minister's proprietary right in a State limited company is article 5 – 1 of the Limited Liability Companies Act, which reads:

«Through the general meeting, the shareholders exercise supreme authority in the company.»

A similar provision applies to the public limited companies, the state-owned enterprises and the main special law companies. In relation to the state-owned enterprises, the term «general meeting» is replaced by «corporate assembly», but is in reality identical.

A shareholders general meeting is a meeting held in accordance with detailed rules laid down in company law. The company's general manager, board members, any members of the corporate assembly and the company's auditor must be summoned and have the right to attend and to speak at the general meeting. The chair of the board and the general manager have a duty to attend. Further, the Office of the Auditor General must be notified when general meetings are convened. Minutes must be taken of the general meeting. A general manager, member of the board or member of the corporate assembly who disagrees with a decision made by the person representing the company's shareholders, shall require his/her dissent added to the minutes.

The rules regarding minute-taking and notification of the Office of the Auditor General provide the basis for constitutional supervision of the administration of the State's ownership.

Provisions in article 5 – 1 of the Limited Liability Companies Act/Public Limited Companies Act entail that the minister, through the general meeting, has supremacy over the board in State limited companies and may issue instructions which the board shall be bound by. These may consist of general instructions or special instructions in an individual matter. The alternative to the board ceding to the instructions of the general meeting, is for the members of the board to withdraw from office.

Another aspect of article 5 – 1 of the Limited Liability Companies Act/Public Limited Companies Act is that the minister in the capacity of the general meeting has no authority in the company if the general meeting form is not employed.

In part-owned companies, the foregoing requirements are necessarily modified out of regard for the other shareholders and the parity principle of the Limited Liability Companies Act, cf. article 5 – 21 of the Limited Liability Companies Act/Public Limited Companies Act. This means that the State, even if it is the majority shareholder, may not serve its own interests at the expense of the other shareholders in the company. The requirement regarding equal treatment of shareholders imposes a restriction, for example on access to free exchange of information between the company and the ministry. The company legislation also prescribes clear guidelines regarding the State's dialogue with listed companies. However, this does not prevent the state from addressing matters in the public interest in the dialogue with a company, similarly as other shareholders and other stakeholders generally may do.

3.3 Details of how ownership control is exercised based on different shareholdings

Once the Storting has decided that the State is to engage in an undertaking organised as an independent legal entity, this has consequences for how political policies and other aims are to be communicated and how and to what extent interference may be allowed in the business's operations.

The management of a state-owned enterprise or limited company is distinct from the management of bodies within the State administrative system. The shareholders (include the State as a shareholder) must, as owners, respect the statutory division of roles between the general meeting/corporate assembly, the board and general management. By organising the enterprise as independent legal entities, as state-owned enterprises or limited companies, the State essentially waives its options for influencing day-to-day operations.

Through its participation in nomination processes and election to governing bodies, determination of the company's objects clause and other articles of association, and by laying down frameworks for the undertaking at the general meeting the State as owner can however still exercise influence over the company's activities. Such influence will depend on the size of the State's shareholding.

The following discusses what a shareholder achieves in the way of influence in a company with a number of relevant shareholdings and how this affects the governance.

3.3.1 Wholly owned companies

Limited companies wholly owned by the State are referred to as state-owned limited companies (*statsaksjeselskaper*) or state-owned public limited companies (*statsallmennaksjeselskaper*). The ordinary rules of Norwegian company law apply equally to the state-owned limited companies. In addition, certain special rules are prescribed which provide the State with extended control of its ownership, cf. articles 20–4 to 20–7 of the Limited Liability Companies Act/Public Limited Companies Act. A number of wholly state-owned undertakings are also organised as state-owned enterprises or special law companies. The state-owned enterprises are in all fundamental aspects regulated in the same way as state-owned limited companies.

The main differences for state-owned limited companies as compared with ordinary limited

companies is firstly that the general meeting appoints shareholder-elected members to the board even if the company has a corporate assembly, cf. article 20–4 no. 1 of the Limited Liability Companies Act/Public Limited Companies Act. Furthermore, the King in the Council of State (Government) is granted access to review the corporate assembly's/board's decisions in matters where significant public interests may call for a reversal of the decision cf. article § 20 – 4 no. 2 of the Limited Liability Companies Act/Public Limited Companies Act. In state-owned limited companies, the general meeting is also not bound by the board's or the corporate assembly's proposal for the distribution of dividends, cf. article 20 – 4 no. 4 of the Limited Liability Companies Act/Public Limited Companies Act.

There is a duty to have representation of both sexes on the boards of state-owned limited companies and their wholly owned subsidiaries, cf. article 20 – 6 of the Limited Liability Companies Act. The same applies to state-owned enterprises and public limited companies generally, cf. article 19 of the Act relating to state-owned enterprises and articles 6 – 11a and 20 – 6 of the Public Limited Companies Act. The Office of the Auditor General also has extended right of audit of the minister's administration of the State's shareholdings, cf. article 20 – 7 of the Limited Liability Companies Act/Public Limited Companies Act.

In wholly owned companies, shareholders may, through decisions at the annual general meeting, impose obligations on the company with the effect of reducing the company's financial results without this coming into conflict with article 5 – 21 of the Limited Liability Companies Act/Public Limited Companies Act (misuse of the annual general meeting's powers), cf. also article 6 – 28 of the Limited Liability Companies Act/Public Limited Companies Act (misuse of position in the company etc.).

The State's liability in limited companies, state-owned enterprises and special law companies is limited to subscribed equity. If the shareholder goes too far in controlling the company in commercial matters, this may result in creditors filing claims against the State by invoking law of tort or of corporate law concerning piercing of the corporate veil. For this reason, among others, companies are to be compensated by means of separate allocations if they are instructed to make investments or undertake other activities that their board does not find commercially justifiable.

3.3.2 Part-owned companies

In cases where the State is a joint shareholder in a company, company law imposes restrictions on the types of resolutions that may be passed at the annual general meeting, cf. article 5 – 21 of the Limited Liability Companies Act/Public Limited Companies Act (misuse of the annual general meeting's powers). In principle it is therefore explicit limits to what political aims may be furthered through the exercise of shareholder rights in part-owned companies.

In Official Norwegian Report, NOU 2004:7 p. 33, the preparatory committee on state ownership reports on the rules regarding protection of minority interests:

«In the majority of companies in which the State has a proprietorial interest, the State's shareholding would normally give a controlling interest. In spite of its controlling status, the State may not exercise its ownership of companies without showing regard for the interests of minority shareholders. The provisions of the Limited Liability Companies Act for protection of minority interests are particularly pertinent to the State in its role as part-owner. The purpose of these provisions is to protect the rights of the minority shareholders in relation to the majority shareholder. The two company acts lay down a number of rules which give a minority share of the company's shareholders influence over and above that which ensues from the majority principle. The main provision is article 5 – 21 of Limited Liability Companies Act/Public Limited Companies Act. This provision prohibits the general meeting from passing any resolution designed to give certain shareholders or others an unreasonable advantage at the expense of other shareholders or the company. The reason why this provision may be pertinent to the State is that its ownership may be based on objectives other than purely commercial ones. The State may therefore have different preferences than other shareholders. Whether or not the realisation of other State objectives constitutes an unreasonable advantage over other shareholders in the company, will rest on a comprehensive assessment that must take into account the «scope of the benefit, the company's standing and the general circumstances¹».

Depending on the size of the State's shareholding, it will still be possible to further a number of

important objectives, such as ensuring that head office functions remain in Norway, control over natural resources etc.

The following ownership thresholds are central in company legislation:

9/10

If a shareholder has nine-tenths of the share capital and voting rights in a limited company, this majority interest can acquire the remaining shares by way of a compulsory buyout of the other shareholders in the company.

2/3

A shareholding of more than two-thirds of the share capital has control over decisions requiring a corresponding majority in conformance with company legislation. Resolutions to amend a company's articles of association require at least two-thirds of the votes/shares. The same applies to decisions concerning mergers or demergers, raising/reducing share capital, raising convertible loans, conversions and winding up. This is a key threshold if it is important for the State to ensure its control over such decisions.

1/2

A shareholding of more than half of the votes ensures control over decisions requiring an ordinary majority at the general meeting. These include decisions such as approval of the annual accounts and decisions on distribution of dividends. Election of members to the board of directors and corporate assembly also require an ordinary majority. However, the board will be elected by the corporate assembly if such a body exists.

1/3

A shareholding of more than one third of the votes and the capital gives so-called negative control over decisions requiring a two-thirds majority. A shareholding of this size ensures that the holder can oppose significant decisions such as the relocation of headquarters, increasing of share capital, amendments to the articles of association etc., cf. the section on a two-thirds majority.

3.3.3 Unequal voting shares

In certain countries the practice has been to operate with a special class of shares or an individual share with special (veto) rights for government organisations known as 'golden shares'. There is no tradition for operating with such shares in Norway and the EU currently only permits use of golden shares in very special circumstances. The Norwegian Code of Practice for Corporate Governance states that all shares should be accorded equal rights in the company. The use of such

¹ The wording is derived from Mads Henry Andenæs: *Aksjeselskaper og allmennaksjeselskaper* (Limited liability og public limited liability companies) page 238.

shares is hence to only a very limited extent an alternative of maintaining a large shareholding where it is regarded as important to exert political control over key decisions. Instead, the prevailing opinion through changing governments has been that proportionality should be maintained between capital invested and influence. On that basis, there has been no move to introduce special rights for the State as a shareholder.

3.3.4 Mandatory bid obligation

According to Part 1 of Section 4 – 1 of the Securities Trading Act, any person who through acquisition becomes the owner of shares representing more than 40 per cent of the voting rights in a Norwegian listed company is obliged to make an offer to purchase the remaining shares in the company. This entails that a decision to raise the State's shareholding in a company above this threshold value may result in an unintended large shareholding.

In Norwegian Official Report NOU 2005:17, the preparatory committee for the Securities Trading Act presented a sub-recommendation including draft amendments to the rules regarding takeover bids (voluntary and mandatory bids in acquisition of companies) in order to implement in Norwegian law Directive 2004/25/EC of the European Parliament and of the Council on takeover bids. The Directive entails new requirements in relation to current Norwegian law, especially as regards voluntary bids.

In NOU 2005: 17, a committee majority proposes lowering the threshold for acquisition of shares representing more than 40 percent of the voting rights in the company to one-third of the voting rights. A majority also proposes a repeated bid obligation on acquisition of shares representing more than 50 per cent of the voting rights in the company. The committee's proposal will be considered by the Government and brought as a separate matter before the Storting.

3.4 Procedures in the exercise of state ownership

3.4.1 Contact with the company

The tasks of the ministries exercising state ownership involve monitoring the companies' financial results and general status. A number of ministries hold regular meetings with the management of the companies. The matters at issue may concern discussions of economic trends, communication of

the State's expectations regarding return on investment and dividends or briefings on strategic issues involving the companies. One-to-one meetings with company management take place in a similar fashion to those usually held between limited companies and other large investors. The meetings are conducted within the frameworks prescribed by companies and securities legislation, not least as regards the criterion for equal treatment of all shareholders.

The external frameworks for corporate governance do thus not prevent the State, like other shareholders, from raising matters that should be considered by the companies in relation to their business and growth. The opinions expressed by the State at such meetings are to be regarded as 'input' for the company's administration and board. The board of the company is responsible for managing the company so as to serve the best interests of all shareholders, and is required to undertake specific deliberations and decisions. Matters that require the endorsement of shareholders must be raised at the general meeting and be decided on through the shareholder democracy in the usual manner.

The State as shareholder is not usually privy to more information than what is publicly available to other shareholders. Under special circumstances, where the State's involvement is required in order to carry out a demerger, merger or the like which entail that the Government obtains a mandate from the Storting, it will at times be necessary to disclose insider information to the ministry. In such instances, the State is subject to the ordinary rules regarding the treatment of such information.

3.4.2 Election of board of directors and members to corporate assemblies

The ministries charged with ownership responsibilities ensures that the companies have competent board of directors that satisfy the requirements that ensue from the companies' strategic challenges and serve the interests of the general body of shareholders.

Active politicians, including members of parliament, ministers and state secretaries, and government officials and civil servants who within their remit exert regulatory or controlling authority over the company or deal with matters of substantial import for the company, can not be elected to the board of directors. This is a condition established to avoid any conflicts in legal capacity or conflicts of interest that might well arise if the

interests of the general body of shareholders do not coincide entirely with those of the State.

The State has no own board representatives in part-owned companies. It is expected that all members of the board seek to attend to the company's and the shareholder's common interests.

The State expects the boards of directors of all companies with State shareholdings to perform an evaluation of their own activities. The board's self-evaluation should include an assessment of the board's composition relevant to the company's competency requirements, and the manner in which members of the board function both as individuals and as a group in relation to the goals set for their assignment.

The nomination of board members in listed companies is usually done through separate nomination committees. As a main rule, the State will seek to be represented on the nomination committees on which the State, in conjunction with representatives for the rest of the general body of shareholders, will seek to achieve the best possible composition of the companies' governing bodies. Through its representatives on the nomination committees, the State will ensure that the boards embody diverse competencies and have sufficient capacity to discharge their duties, including that the boards of large companies include representatives who possess an understanding of and insights into matters of public interest. At board elections, the State will also review the work performed by the boards, and whether the strategic challenges faced by the boards dictate the need for changes to their composition. Boards and corporate assemblies must also reflect a balance of men and women.

The nomination committee will usually also present proposals regarding remuneration. In companies in which the State owns shares, remuneration is expected to be comparable with that paid by comparable private limited companies.

The boards are normally elected in full, and with a term of office of two years in conformance with article 6–6 of the Limited Liability Companies Act.

3.4.3 Principles of corporate governance

Good corporate governance is of great importance for the nation's overall economic efficiency and competitiveness. The principles of good corporate governance entail, among other things, a clear distinction between roles and ensure the transparency of decision-making processes. Good corporate governance reduces the risk of the undertak-

Box 3.1 The State's principles of good corporate governance

1. All shareholders shall be treated equally.
2. There shall be transparency in the State's ownership of companies.
3. Ownership decisions and resolutions shall be made at the general meeting.
4. The State may set performance targets for each company, together with other owners. The board will be responsible for meeting these targets.
5. The capital structure of the company shall be consistent with the objective of the ownership and the company's situation.
6. The composition of the board shall be characterised by competence, capacity and diversity and shall reflect the distinctive characteristics of each company.
7. Compensation and incentive systems shall promote the creation of value in the companies and shall be generally regarded as reasonable.
8. The board shall exercise an independent control of the company's management on behalf of the owners.
9. The board shall adopt a plan for its own work and shall work actively to develop its own competencies. The board's activities shall be evaluated.
10. The company shall recognise its responsibility to all shareholders and stakeholders in the company.

Source: Nærings- og handelsdepartementet

ing. This is of vital importance for the market's confidence in the companies and hence also for the companies' capital costs. Long-term value creation is best achieved through sound, transparent processes between the companies and their shareholders, in which the parties are aware of their roles and responsibilities.

The State owns a substantial proportion of society's financial capital, and companies with State shareholdings constitute a considerable proportion of the Norwegian capital market and Norwegian value creation. The manner in which the State acts as an owner therefore has great influence on public and investor confidence in the Norwegian capital market.

Like private companies, both public administration and state-owned companies must continually adapt to changing requirements and circumstances. Goals and strategies for the individual companies must therefore be developed in response to changes in society. This is borne out by practice: major and successful structural changes in a number of wholly and part-owned companies, which were formerly part of public administration, demonstrate that the State has been adaptable.

3.4.3.1 *The State's principles of good corporate governance*

The State has formulated its own main principles of good corporate governance. These principles are aimed at all state-owned enterprises, whether wholly or part-owned, and conform to generally accepted principles of good corporate governance. The principles concern key aspects such as equal treatment, transparency, independence, the composition and role of the board, etc.

3.4.3.2 *The Norwegian Code of Practice for Corporate Governance*

On 28 November 2006, the Norwegian Corporate Governance Board (Norsk utvalg for eierstyring og selskapsledelse: NUES) presented a revised version of the Norwegian Code of Practice for Corporate Governance. NUES comprises representatives of different interest groups representing shareholders, issuers of shares and Oslo Børs. The following nine organisations established NUES and endorse the Code of Practice: Norwegian Shareholders Association, Norwegian Institute of Public Accountants, Institutional Investor Forum, Norwegian Financial Services Association, Norwegian Society of Financial Analysts, Confederation of Norwegian Enterprise, Norwegian Association of Private Pension Funds, Oslo Børs and Norwegian Mutual Fund Association. Until autumn 2005, the Code of Practice was the responsibility of a working group of representatives from the nine organisations mentioned above. The nine organisations then established NUES. The NUES' objective is to keep the Norwegian Code of Practice up-to-date. The State, represented by the Ministry of Trade and Industry, participated in the project through its membership of the Institutional Investor Forum.

The purpose of the Code of Practice is to promote maximum value creation in listed companies in the best interests of shareholders, employees,

Box 3.2 Norwegian Code of Practice for Corporate Governance

The Code of Practice provides recommendations concerning the following:

1. Statement of policy on corporate governance
2. Business
3. Equity and dividends
4. Equal treatment of shareholders and transactions with close associates
5. Freely negotiable shares
6. General meetings
7. Nomination committee
8. Corporate assembly and board of directors: composition and independence
9. The work of the board of directors
10. Risk management and internal audit
11. Remuneration of the board of directors
12. Remuneration of the executive management
13. Information and communications
14. Take-overs
15. Auditors

Source: www.nues.no

other stakeholders and other societal interests. The Code of Practice is intended to strengthen confidence in Norwegian companies and the Norwegian stock market.

Oslo Børs has introduced a requirement for listed companies to produce an annual statement of policy in conformance with the Norwegian Code of Practice for Corporate Governance, which is founded on the «comply or explain» principle. This means that a company must either abide by each of the recommendations that make up the code, or explain why it has chosen another solution.

The Code of Practice addresses matters such as equity, dividends, equal treatment, general meetings, the work and composition of boards of directors and corporate assemblies, remuneration, information, etc.

3.4.3.3 *OECD guidelines on state-owned enterprises*

Good corporate governance of state-owned enterprises promotes economic growth through productivity growth, improved profits, efficiency gains and enhanced competitiveness. By providing conditions conducive to increased access to capital for

state-owned enterprises (both loan capital and owners' equity) an enterprise may achieve more transparent and efficient use of resources, which promotes profitable investment and job creation.

Good governance of state-owned enterprises is therefore important, and many OECD countries have seen it as appropriate to seek to establish a standard for best practice in corporate governance of such enterprises. The Guidelines prepared in 2005 complement the OECD's Principles of Corporate Governance.

The Guidelines address six main areas. The commentary on the guidelines offers a number of recommendations based on administrative practice and experiences in the individual countries, as well as discussions in the OECD working group.

Through its participation in a working group, the Ministry of Trade and Industry has contributed actively to the formulation of the OECD's new guidelines. The Norwegian Practice for the administration of the states ownership largely follows the OECD Principles.

3.4.4 Transparency concerning state ownership

Transparency and predictability build confidence in state ownership. Transparency concerning state ownership is important both in the interests of democracy and because the State wishes to see continual performance measurement as a component of professional exercise of ownership.

Norway operates with a principle of public access to documents in the public administration. The principle of public access to documents in the public administration is inscribed in Norwegian legislation and practice, and is regarded as a fundamental democratic principle.

The public possibility of access, and thereby for the public to learn about, influence and control the administration's activities, helps to increase confidence in the public administration (central and local government). The right of access also helps to ensure that public debate may be conducted on a well-informed basis. A high degree of transparency will thereby serve to prevent potential misapprehensions concerning the State's exercise of ownership and increase the predictability of its activities, which will also have a positive effect on valuation of the State's shares.

In relation to the administration of state ownership, it is possible, and on occasion necessary, to exempt a number of documents from disclosure to the public. This would include sensitive information pertaining to the stock exchange and docu-

ments with commercial content. There is also a requirement regarding deferral of public right of access in cases being processed by the Office of the Auditor General. Such authorised exceptions are not to be used more than necessary.

All important matters concerning companies, which pertain to the relationship between the Storting and government, are reported on an ongoing basis in Storting publications. These are typically matters concerning changes in shareholdings, matters with budgetary consequences or matters of special political interest, including ownership strategy for wholly-owned companies. Moreover, for companies assigned sector-policy tasks, it is appropriate to prescribe special guidelines concerning social programmes and priorities.

The Ministry of Trade and Industry publishes a biennial ownership report on financial trends in the companies, key events and a survey of their boards etc. A number of key companies administered by other ministries are also included in the report.

In recent years the Ministry has organised an annual ownership conference to which individuals with diverse standpoints and experience of Norwegian and foreign business and industry are invited to discuss current issues. Conferences of this kind also contribute to transparency and greater predictability concerning the State's ownership.

3.4.5 Return on investment

The value of the State's direct ownership in Norwegian business and industry is considerable, and the State operates with a long-term perspective in its investments. Return on invested capital is therefore a key focus in administration of the State's shares. Pursuant to provisions such as Regulations for Financial Management in the Government Administration, return targets must be set for companies in which the State is a shareholder. 'Return targets' are taken to mean the shareholder's expectations of returns on investment in the shape of dividends and an increase in the value of invested capital.

Companies with multiple shareholders are expected to make an overall assessment of input from shareholders concerning expected return on investment. The companies set their own internal rate of return for their operations. Specific return targets signal to company management that the shareholder attaches importance to the profitability of its investments. Further, return targets are a necessary means of monitoring and evaluating

actual value growth vis-à-vis shareholder expectations.

Return targets for a company are deduced as the sum of risk-free interest and a provision for risk. The higher the risk associated with the company, the stricter the requirement for a risk premium and hence the higher the total return target.

Return targets are intended to apply as an average for a medium term of three to five years, after which they are reassessed. The return targets are also adjusted if the companies' risk profile changes substantially over the given term.

An assessment of target attainment therefore has to be made on the basis of an average over several years. In following up on targets, the shareholder will also need to look at general market trends.

Return targets are not set for companies that are not based on commercial operations, or which are dependent on government aid for continuation of their operations. For these companies, the State's appropriations regulations must be adhered to in respect of appropriations and reporting.

3.4.6 Dividends

It is important that the State as a large owner, just as other shareholders, expresses its views and expectations regarding company dividend policy.

In companies whose main objects are commercial, high value creation over time is a primary objective. Company dividend policy should underpin this objective. The State's dividend expectations should reflect what the State as a shareholder regards as the right balance between dividends and retained profit, in order to achieve the object of high value creation over time. Dividend expectations conveyed by the State to the individual company must be predictable, and should normally be fixed for a term of several years. Over a longer term, the company's situation may change and make it natural to change the dividend policy.

One important aspect in determining dividends is that the company should have equity comparable with the company's goals, strategy and risk profile. Companies in which the state is a shareholder must be able to operate according to the same framework conditions as the companies they compete with. This means, among other things, that dividend expectations should be formulated in such a way that they do not serve to give companies in which the State is a shareholder competitive advantages or disadvantages compared with companies in private ownership.

Alongside their ordinary business operations, a number of state-owned enterprises have social tasks which may be unprofitable. In such cases, the companies will normally be compensated separately for documented additional costs, and not indirectly through reduced dividends from the company. Other companies such as Statnett SF, the owner and operator of large sections of the Norwegian power grid, is instructed to place investments and operate according to national economic criteria. For Statnett this may mean that certain measures or investments are not commercially profitable. These social tasks, which are laid down in Statnett's articles of association, are not compensated through the national budget.

The ministries with responsibility for administering state ownership produce their own long-term dividend expectations vis-à-vis companies with a commercial objective where the State is a shareholder. These expectations are applicable as an average over a term of three to five years – or longer if deemed relevant. The ministry's long-term dividend expectations from an individual company are normally expressed as a percentage of the annual profit.

In addition to the long-term dividend expectations, the ministry also formulates its expectations regarding the annual dividend to be decided at the general meeting in accordance with the board's proposal. When determining expectations from a company, a systematic assessment will be made in respect of a number of criteria. Certain criteria will favour a high dividend and others a low dividend. The emphasis given to the individual criteria varies from one company to the next.

The core company-specific criteria used in assessment are:

- strategy
- lifecycle or growth phase
- capital structure
- investment history

The following will also be taken into account:

- any weak return on capital in the company
- dividend policy as a control function
- the dividend level in comparable companies

The Government seeks to promote an active and conscious dividend policy designed to foster long-term value creation in the companies.

The State as a shareholder does not have a free hand in determining the dividend level in part-owned companies. According to the Limited Liability Companies Act/Public Limited Companies Act, the general meeting cannot decide to distribute a

higher dividend than that proposed or approved by the board. With this proviso, the general meeting is able to set the highest amount that can be distributed. However, it is perfectly admissible for the State as a shareholder to express its expectations regarding dividend, and also on what considerations these are based.

3.4.7 Strategy studies and financial statement analysis

The objective of ensuring solid industrial growth dictates the need for sustained focus on company

profitability and growth opportunities. This requires in-depth comparison of the companies' profitability and strategic situation compared to other companies. The companies' accounting figures form the main basis for such analyses. Analyses of the company's growth over time and compared with similar companies help the shareholder to assess the company's commercial activities and management in terms of industrial objectives. The government performs such analyses partly in-house and partly by retaining specialised analytical expertise.

4 The organisation of share management in a selection of countries

Organisation of state ownership varies quite extensively within the OECD area. This chapter provides just a brief survey of share management in a few other countries. Sweden and Finland share many similarities with Norway, both in terms of the extent of state ownership and the organisation of share management in the public administration. In France, the State also owns extensive assets, but the management model differs.

4.1 Sweden

The Swedish state is Sweden's largest corporate owner, and manages assets in 55 enterprises/companies, of which 42 are wholly owned by the State and 4 are listed on the stock exchange.

The total value of the State's ownership is estimated in the Swedish State's ownership report for 2005 at SEK 675 billion. As of 31 December 2005, the total value of state-owned assets on the stock exchange amounted to SEK 134 billion.

The Swedish State's Ownership Policy states that the Government shall actively monitor and manage state-owned assets in order to achieve optimum value growth and, where appropriate, the furtherance of special public interest purposes. This is achieved by setting, monitoring and evaluating financial objectives, including national economic objectives and other special objectives.

In the Ownership Policy, the Government sets out its positions on issues of principle concerning asset management, including its views on general meetings, board nominations, responsibility of the board, external reporting, executive management and its remuneration.

Most of the expertise and resources in the state ownership administration is consolidated in a separate ownership department under the Ministry of Industry, Employment and Communications. The Minister for Enterprise and Energy has a coordinating responsibility for coherent administration of state-owned assets and the nomination of board members for companies in which the Swedish State is a shareholder.

Civil service officials and/or active politicians represent the Swedish State on a number of company boards. However, this does not apply to the listed companies. Sweden follows the same practice as Norway as regards participation in nomination committees in listed companies.

4.2 Finland

In Finland, like Sweden and Norway, the State is also a relatively large shareowner.

The Finnish State owns shares in 55 companies of significance, of which 29 are termed «statsbolag» in which the State has a majority interest. The other 26 are referred to as «interessebolag» in which the State has a significant minority stake. 14 of the companies are listed on the stock exchange.

The value of the State's shareholdings in listed companies totalled 19,400 million Euro at year-end 2006. The value of shares in non-listed companies operating on ordinary market terms is estimated at 4,000 million Euro.

The object of Finnish State asset management is to achieve as good a financial and social overall result as possible. Ownership is managed professionally and proactively, and the main object is to improve the companies' profitability and, in the long term, to increase the value of the owner's assets.

Responsibility for asset management is divided between several ministries. The most important of these are the Ministry of Trade and Industry, the Ministry of Finance and the Ministry of Transport and Communications.

An executive group has been established with the remit of ensuring that the planning and implementation of initiatives to further corporate governance are carried out consistently through the public administration.

The Ministry of Trade and Industry is responsible for improvements to and general supervision of state ownership policy and for the formulation of positions, decisions and measures pertaining to the policy.

In Finland, the standard practice is for the Ministry with responsibility for shares to be directly represented on a company's board of directors.

4.3 France

The State owns some 60 different companies in France. By tradition these were managed directly by the ministries. However, with effect from 2004, a quasi-directorate was established – the French Government Shareholding Agency (APE) – which sorts under the French Ministry of Economy, Finance and Industry. The agency was created in

order to discharge the role of shareholder within the frameworks of French regulations and in conformance with the Government's guidelines. The primary purpose is to optimise the value of the State's shareholdings.

APE manages a government portfolio comprising both minority interests and large, state-controlled companies spanning a wide range of activities and undertakings. APE cooperates with other ministries, coordinates strategies and guidelines for the state as a shareholder and is the chief adviser to the ministry in all matters pertaining to the State's role as a shareholder.

5 Official Norwegian Report, NOU 2004:7 The State's Commercial Ownership

5.1 The preparatory committee on state ownership – background and topics

The Storting's consideration of Report to the Storting no. 22 (2001 – 2002), cf. Recommendation to the Storting no. 264 (2001 – 2002), resulted in two resolutions to review the organisation and administration of state ownership:

«The Storting requests the Government to appoint an expeditious committee to obtain a broad review with a view to improve the organisation and administration of state ownership.»

«The Storting requests the Government to report back to the Storting with various models for more professional exercise of state ownership.»

This was the basis for the appointment of the preparatory committee on state ownership by Royal Decree of 15 November 2002. The committee was assigned to:

«...review and assess the organisation of state ownership in companies wholly or part-owned by the State, and in which the enterprise operates mainly with a commercial orientation.

The committee shall address and consider various models for ownership administration, including the present organisation and administration through one or more administrative bodies. The aim is for state ownership to be administrated with a view to secure State assets and solid industrial growth for the companies. The models considered must also be suitable for implementing changes in State shareholdings and for furthering any specifically defined objects for the State's ownership in respect of individual companies. Administration costs, expertise and efficiency in the administrative proposal will be of importance.

The committee shall consider and present proposals for resolving issues of an organisational, legal and commercial nature entailed by changes in the administration and any alternative models.

The committee shall report on how the regard for the Storting's and Government's

management of and supervision of administrative performance, and the Office of the Auditor General's need for access to and audit of that performance may be attended to by various models. The committee should clarify if any of the models under discussion will require changes with regard to mandates granted by the Storting pertaining to the approval of mergers, the divestment of shares and the like».

The committee submitted its recommendation to the Ministry of Trade and Industry on 16 March 2004: NOU 2004: 7 The State's Commercial Ownership.

In accordance with its mandate, the committee restricted its appreciations to the large shareholdings in commercially oriented limited companies and wholly-owned companies administrated directly by the ministries. The committee provides a summary of objectives the State either pursues or has pursued for direct ownership. A main distinction is drawn between value-maximising objectives and social and sector-policy objectives. The realisation of State objectives through the exercise of shareholder rights is considered compared with the use of alternative regulatory instruments. Different company forms are reviewed, and an overview is provided of the main characteristics of how administration has proceeded. The committee refers to key rules in the competition legislation and the EEA agreement, which prescribe legal frameworks of special importance for the administration of state ownership. The Committee also reviews the main constitutional and public administration law rules in this domain. A brief summary is also provided of the main features of the administration of state ownership in a few selected countries, including Sweden and Finland.

The Committee's assessments and recommendations are concentrated on discussions of the objectives of ownership, and in extension of this the improvements that may be achieved through changes in the organisation of state ownership and the main rules governing decision-making processes.

The report from the committee was submitted for ordinary consultation among public and private enterprises and organisations that would be affected. The bodies consulted generally support the committee's assessments and recommendations. The committee's report and the consultation statements accompany the Report to the Storting as unpublished attachments.

5.2 The preparatory committee on state ownership's assessments and recommendations

5.2.1 The objectives of state ownership

The preparatory committee on state ownership recommends that the objectives of state ownership be clarified. Clear objectives facilitate assessment of the companies' performance. The committee refers to the fact that greater understanding of a dominant shareholder's or sole owner's aims will simplify the companies' strategic work in matters requiring shareholder involvement. The State's capital in the companies has alternative use; for example, it could be placed in financial investments or used for producing welfare benefits and services. Precise formulation of objectives and subsequent public evaluation of their achievement would provide better information about the costs and benefits of state ownership. The committee indicates that any uncertainties might result in the State, in the capital markets, being ascribed objectives it does not have. Clarification of ownership objectives might therefore have the effect of making companies, in which the State is a shareholder, more attractive to other investors. This would then benefit the State and the companies through more positive value estimates and lower financing costs.

As the basis for clarification of the objectives of state ownership, the committee divides the companies in which the State is a shareholder into four categories. The committee emphasises that such categorisations are general analysing tools, designed to obtain the fundamental objectives of state ownership:

1. Companies with commercial value maximisation objectives.
2. Companies with commercial value maximisation objectives, and ensuring head-office functions in Norway.
3. Companies with commercial value maximisation objectives and other specific defined objectives.
4. Companies with sectoral policy objecting.

The committee indicates that other objectives, which address the broader public interest, are of great importance for all companies independent of ownership. The committee maintains that companies in which the State is a shareholder should take the lead in social responsibility. Core values in social responsibility are to protect the environment and ensure sound social conditions globally and locally. The committee indicates that the State might risk weakened legitimacy, for example as a legislator and in matters concerning foreign policy, if it were to fail in its role as owner to comply to high standards in this area. Social responsibility will evolve over time and vary between different sectors. Most companies justify their social responsibility initiatives as being both intrinsically valuable and commercially valid.

Objective category 1 – Companies with commercial value maximisation objectives

In this category of companies, the objective of state ownership is to maximise their commercial value. This means that there is no reason for practising any operational administration of shareholdings other than what is employed by private asset management environments.

In the committee's opinion, the requirement regarding solid industrial growth does not conflict with the objective of commercial value maximisation, being rather a precondition for it. Solid industrial growth thus requires, among other things, that the companies capitalise on value-creating investments within their line of business. The fact that the companies' investments must be value creating also entails that anticipated profitability must, as a minimum, achieve the shareholder's return targets. Companies in which the State is a shareholder must have access, like other companies, to making the most of value-creating business opportunities, including acquisitions and mergers in order to ensure solid industrial growth.

Expert talks concerning the goal formulation of the preparatory committee's mandate («The aim is for state ownership to be administrated with a view to securing State assets and solid industrial growth for the companies» (Annex 8 in NOU:2004:7) drew the conclusion that the two distinct aspects of the goal-formulation are not mutually conflicting, but on the contrary, proper administration lead to both sound commercialisation and sound socio economics:

... «solid industrial growth for the companies means that the State will safeguard its long-

term values, while long-term safeguarding of values presupposes that the companies are assured of solid industrial growth.»

Objective category 2 – Companies with commercial value maximisation objectives and ensuring head-office in Norway

The State's ownership in this category of company is motivated purely by commercial interests, but with the added dimension that it ensures head-office activities and competencies in Norway, and where possible, Norwegian-based control and management. This ownership strategy will ensure that investment opportunities are provided in Norway, with positive impacts on business and industry development, without imposing any restrictions on foreign commitments. It will rest with other business and industry policy to provide national framework conditions that are conducive to national investment.

The aim is for the companies to develop on a full commercial basis, from their head offices in Norway. The companies' acquisition and sale, or start-up and winding up, of businesses at home and abroad would thus be done on a commercial basis by the companies. These are also issues that naturally sort under company management in pursuance of Norwegian company legislation. The State involvement in such matters would primarily be connected with the companies' national framework conditions.

Putting value maximisation and solid industrial growth into operation for these companies will be the same as for category 1, just with the added dimension that the companies are to be headquartered in Norway.

Objective category 3 – Companies with commercial value maximisation objectives, and other specific defined objectives

The committee points to the fact that specifically defined objectives over time appear increasingly to be furthered through regulations, licences and through commercial State procurement from the companies. However, the characteristic of category 3 is that in addition, it embodies objectives over and above commercial value maximisation, which must also be achieved through state ownership. For some companies the situation may be very similar to that of category 2, in the sense that there is no need for special follow-up in assets management in order to realise defined objectives. These objectives are realised in that the company

operates its business on a commercial basis within the sector concerned. This would apply for example in cases where the aim of ownership is to monitor the sustained production of products and services of importance for national security or to maintain national sovereignty. The same applies where the object of state ownership is to ensure national ownership of natural resources and to seek to remedy failures in the capital markets by building up competition, capital etc. Certain types of business enterprise under state ownership have commonly been referred to as 'sector-policy instruments'. Based on the State's objectives for its ownership, more specific requirements will then usually be made regarding field of activities, products, availability, quality etc.

If the specifically defined objectives have to be pursued actively through ownership, a new set of operational objectives should be set as per category 1. These objectives may conflict with the objective of value maximisation and may thus mean weighing up pros and cons on the part of the owner.

Objective category 4 – Companies with sectoral policy objectives

The State's ownership in this category of companies is founded mainly on sector-policy objectives. Although the committee has not assessed administration of ownership in these companies, it is assumed that some of the committee's arguments would also be of relevance for such companies.

5.2.2 Improvements in ministerial ownership

The preparatory committee on state ownership's assessments and recommendations regarding the administration and organisation of state ownership concern the consequences of the extent of state ownership for the soundness of markets, the State's handling of roles and decision-making basis, concretizing objectives (value and performance measurement), exercising the role of owner (including participating in the election of boards and corporate assemblies), dividend policy and investment of capital, changes in shareholdings and the Storting's and government's national governance and control.

Well-functioning markets, the State's handling of roles and decision-making basis

The State has substantial shareholdings in the largest companies on Oslo Børs. The State's ownership

in these companies is stable and long-term. This impacts the liquidity of the shares in that a lesser proportion of shares are available for buying and selling. This in turn impacts the opportunities of other market actors to spread risk as desired. The lack of share trading, because the State does not move in and out of companies on the basis of immediate performance, may also influence returns in the equity market. These are factors that the preparatory committee believes the State should consider when it comes to listing of companies and decisions concerning changes to shareholdings.

The State has many roles and tasks. Besides owning shares in competitive companies, the State procures products and services, regulates markets/sectors, performs inspections and supervision and makes binding decisions in individual cases based on the prevailing regulations. It is therefore important for the State to organise itself in a manner that instils confidence that the market actors' requirements regarding equal treatment of state-owned and private companies are respected.

Isolating the different roles in this way can be done horizontally by lodging the ownership function with separate sections with no other tasks to conflict with the role of owner. Organisational isolation of roles might strengthen legitimacy in that role conflicts within one and the same body would be reduced. Against that, one important justification for, in some instances, consolidating ownership and other roles, is where the companies are used as instruments of sector policy. Co-organisation of the various roles might improve the conditions for coherent sectoral administration. Furthermore, the co-organisation of functions might offer efficiency gains in that it would facilitate the use of expertise and information.

The committee points to the fact that conflicts between the role of shareholder and supervisory authority partly gave rise to proposals for independent supervisory bodies in Report to the Storting no. 17 (2002 – 2003) Concerning State supervision. In the above-mentioned report, increased independence for the supervisory bodies under the ministries, which are also responsible for producing services, was launched as an instrument for reducing problems concerning confidence and credibility. Such changes in the vertical governance chain are an alternative to horizontal specialisation in discrete ministerial sections.

The committee points out that a different ministry than the sector ministry should, ideally administrate the State's shareholding in companies that operate in competition with private actors.

However, the committee is also concerned by the potentially unfortunate consequences for competition of an organisational consolidation of companies in which the State is a shareholder where these are in competition with each other. In companies competing in the same market, the State would benefit by coordinating its ownership, thus reducing competition, which is detrimental to society.

The committee also points out that the extent of state ownership means that decisions should not be made in such a way as to subject the State to unnecessary financial risk. Any misguided decisions will not only affect the State's return on investment and the companies' industrial growth, but may also have detrimental impacts for society in general. In the administration, multiple ownership environments would serve to assure the quality of each other's decisions. Seen in isolation, the competition factor and the need for proper management of risks such as those entailed by extensive direct state ownership favour the model of multiple ownership environments.

The committee thus finds that the choice between a sectoral solution or consolidation of ownership under a single ministry to be a complex matter. Due consideration should be given to effective markets, State risk management, proper handling of roles, the need for industry-specific expertise and general ownership expertise. The prevalence of specifically defined objectives is one factor in favour of retaining ownership with the sector ministry concerned. However, the committee finds that the centralisation of ownership administration that has already occurred has essentially been appropriate. Consolidating state ownership has strengthened the general commercial expertise on which the exercise of ownership is founded and has improved the State's handling of its roles. The committee holds that assessments of future transfers of individual companies should be based on the type of complex assessment outlined above.

The committee comments that several ministries that currently have a role as owner will also have one in the future. A commitment to interdepartmental collaboration on ownership issues is therefore important in order that the general body of ministerial ownership expertise, and not just the individual ministry's expertise, is exploited to best advantage. This kind of collaboration should also aim at developing meaningful criteria for exercising ownership functions. The committee therefore recommends establishing organisational solutions to ensure better deployment of expertise and coordination across ministerial divides.

External consulting environments are retained extensively in ownership issues. Although this should result in procurement of the best expertise available on the market, the committee emphasises on a general basis the State's need to retain external expertise in its transactions with consultants, and expertise for assessing the quality of the advice retained. Private companies and investors have to weigh up similar factors when retaining consulting services. Strong in-house expertise will reduce the need for external consultants, although these provide flexibility in periods of heavy workloads. It would also be worthwhile in itself to have issues assessed by centres of excellence external to the State administration. In some transactions such as listings, issues and divestments, the State will in any case be entirely reliant on services procured from banks and brokerage firms.

Concretising objectives

A value-maximisation objective entails that the assets held by the State increase in value as much as possible, taking into account their risk profile. The State would benefit from objectives that indicate on what scale value should increase in order for the State to be satisfied with its shareholding as a capital investment. The committee points out that direct state ownership is long-term, and that it is therefore growth over time that is most relevant to consider.

The State's direct ownership consists of large shareholdings in relatively few companies. This entails a greater risk than in investments in the Government Pension Fund, which is based on systematic diversification of shareholdings in order to reduce the risk. The Committee indicates that the increased risk entailed by direct state ownership could justify higher return targets. At the same time, the committee points out that the risk should be assessed in relation to the State's overall asset management. If direct state ownership produces a desired profile for State investments that does not automatically mean that the return target should be raised as a reflection of increased risk.

There are arguments in favour of adjusting return targets at portfolio level to the industrial imbalances produced by national traits. The value growth in relation to international business-sector weighted share portfolios would provide an ideal basis for comparison.

The return targets for the individual companies should be set on the basis of company-specific factors. The committee points out that setting the risk premium for such return targets is not an exact sci-

ence. For many companies, this type of company-specific risk premium will not exceed the anticipated added return that forms the basis for the type of diversified portfolios administered by the Government Pension Fund. Lower requirements should be set for companies with low risk. Conversely, companies with higher risk should be required to meet higher return requirements. The committee finds that a rough sorting would be sufficient, because more finely graded return requirements might produce a false impression of how precisely the risk concerned can be calculated. In listed companies, an industry-specific index might be a relevant yardstick as a return requirement derived from a market capitalisation model. Besides, listed companies present their own return targets, which are assessed by analysts and other actors in the capital market. A listing on the stock exchange thus provides continual market-assessment of the business.

The committee does not hold that any changes should be made to the return targets in furtherance of any objectives regarding ensuring national head-office activities. The companies should neither be penalised nor benefit as a result of the owner's investment decisions. The same principle should be applied to companies in which specifically defined objectives are to be pursued through ownership. Any variance from commercial return targets, based on a market capitalisation model, will serve to elicit the costs of specifically defined objectives.

The committee maintains that such general return targets offer a sound and simple basis for assessing company performance, and that the requirement for return on investment over time is what matters most, rather than short-term fluctuations. Such measurements are also the main component of reports to the Storting and the public domain, but are less useful for the shareholder's day-to-day tracking of companies.

The objective of ensuring solid industrial growth dictates the need for separate and ongoing focus on company profitability and growth potential. When it comes to formulating objectives of this kind, a more in-depth comparison of the companies' profitability and strategic situation with that of other companies would be appropriate. One starting point would be the companies' accounting figures. Analyses of the company's growth over time and in relation to comparable companies helps the shareholder to assess the company's commercial undertakings and management in terms of this objective. The committee holds that such accounts-based comparative analyses would also

be useful for the State owner's assessment of the individual company.

Exercising ownership

As part of its work, the preparatory committee surveyed the opinions of individuals such as the chairmen of the boards of companies in which the State is a shareholder. The committee indicates that on the whole the companies perceive the current system of corporate governance as satisfactory. Any points that could be improved on largely concern structural weaknesses in the State decision-making process. Several companies are keen to see the State clarify its objectives for its ownership in each company, and consistency between objectives and decisions in subsequent issues requiring the State's involvement. Unpredictability and time-consuming administrative procedure are among the main objections raised. This is the case especially in matters requiring the Storting's approval, such as capital extensions and structural changes. Time-consuming decision-making processes on structural issues are seen as especially problematical. Several of the board chairmen stated to the committee that the ministry charged with administration of state shareholding should be invested with more authority, in order to ensure greater flexibility and swifter decisions.

The committee indicates that direct state ownership is normally a long-term undertaking, and that the State does not move in and out of shares based on assessment of company performance. The State's most important instrument for realising its aims is thus to exercise owner control over the companies. As a sole shareholder or with a controlling interest in a company, the State has decisive influence on elections to the board, major investments, acquisitions/mergers or restructuring, injection of fresh capital, dividend policy and solidity.

One instrument at hand for improving company results would be a drive to ensure the best possible composition of the board of directors. If the State, as is the current practice in Norway, does not actively pursue owner control through the company's governing bodies, the selection process is then especially decisive. The committee comments that where ownership is organised within a ministry, this imposes obvious limits to how active the State should be when it comes to governance from the owner's stance. The board's, and to some extent the corporate assembly's, role in relation to achieving objectives will therefore be key. Successful board appointments therefore call for a clear

position on the company's financial and industrial growth potential, the board's performance and a good overview of current members of the board.

Within a ministerial organisation, under the supervision of ministers, the committee considers the most important contribution to improve processes would be the internal procedures connected with the appointment and evaluation of the board of directors. Clear guidelines should be drawn up based on the objectives for a shareholding in a company, and the composition of the board should be assessed in terms of this objective.

The committee has assessed current practice in Norway whereby government officials and civil servants do not serve on company boards, and recommends that this system be continued. However, continuation of current practice makes it important for the State as an owner to ensure that it obtains sufficient information about each business, and assesses whether the board of directors is serving the State's objectives. The boards find the current practice whereby the State serves on nomination committees in wholly owned companies to be appropriate, and recommends that this be continued. This participation is particularly important in that the State as an owner does not further its own interests in the company through membership of the actual board itself.

The committee refers to the fact that the State's dividend policy in wholly-owned companies has been criticised in a number of cases for not showing sufficient consideration for the companies' investment requirements. Rational formulation of a dividend policy would be one effective means of disciplining the company. From a control perspective, dividend policy on the part of the owner will often be important in ensuring that management does not have available more or less of the annual profit than what is necessary for financing profitable growth opportunities. In this way, dividend policy can be used as a means of controlling the capitalisation of the company. Retained profit is one of the several sources a company has for financing its activities. Dividend policy should thus be considered in the context of the company's other financing options.

Although the issues concerning dividend policy are complex and should be seen in the context of the company's other financing options and growth opportunities, the committee points out that the unpredictability entailed by the owner's dividend decisions is a problem in relation to the objective of value maximisation. Unpredictability in the dividend policy makes strategic planning difficult because it reduces overview of the com-

pany's financial scope of action. The rationale for the special rules concerning dividend decisions in the company legislation on state-owned limited companies and state-owned enterprises has been the particular interests associated with management and control when the State is a shareholder. The committee holds that these interests do not justify upholding the provisions because the owner, in such cases as in other cases, would be able to make changes to the board of directors. Against this background, the committee recommends that the normal rules in the company legislation concerning dividend decisions also be applied to state-owned limited companies and state-owned enterprises.

The committee points out that this will not prevent the State from operating with a dividend policy for each individual company in line with present levels, or higher or lower. The board will have to comply with the dividend policy, but will itself be responsible for the maximum limits in each individual year. This will also ensure that the board's responsibility for company finances is more in keeping with the board's decision-making competence under company legislation than is the case at present.

A controlling interest or sole ownership gives the State a means of controlling company capital through the weight of its holding. The committee indicates that the State's decisions concerning changes in ownership should meet certain commercial criteria in order to further the objective of value maximisation and solid industrial growth for the companies. The State should contribute generally to an effective capital structure in the sense that the company has the means to achieve solid industrial growth without state ownership being a disadvantage. Similarly, mergers and demergers and other structural measures should exclusively be considered in terms of the value maximisation objective. The dynamics of business and industry also dictate the need for decisions on the supply of new capital or changes in shareholdings to be made with a certain speed.

The committee refers to the fact that decisions concerning the supply of new capital and dividend policy may be complex from an informed perspective, both for the State and private shareholders. Thus, such decisions cannot be expected in all cases to be made within the short space of time intimated as the companies' expectation in their communications with the committee. As regards the fact that State decision-making is claimed to be lengthy and unpredictable, the committee holds that this should be considered in light of the fact

that the decisions have to be considered at several levels and entail difficult political decisions associated with state ownership. Ministerial consultative processes, the Government's and Storting transactions may mean that considerations other than value maximisation are involved in the deliberations. The committee indicates that this form of processing should essentially be regarded as a strength in that democratically elected authorities have the opportunity to form an opinion on the matters at issue, while various considerations can be weighed up against each other within the ministerial system before any decision is made. However, the committee finds that such decision-making processes are less expedient if the politically determined objective of ownership is maximisation of commercial value.

The Storting's and Government's governance and supervision

The Storting's governance of state ownership is founded on the supervisory authority devolved upon it by Article 75 of the Constitution.

Furthermore, matters entailing changes to state ownership must be considered by the Storting. The committee points out that the Storting's governance is to a great extent based on transacting individual matters associated with administration of the individual company, and less so with overarching strategic policy on state ownership of different types of shares. The practice of submitting general reports concerning state ownership to the Storting serves to rectify this picture; nonetheless, the committee finds that there are grounds for questioning whether extensive case-by-case consideration by the Storting is appropriate.

The committee finds that granting mandates with associated allocations by the Storting to the minister responsible would be one instrument worth considering in order to reduce processing time and in order for decisions to be made on a purely commercial basis. Shareholdings subject exclusively to value maximisation objectives produce measurable goal achievement and solely require professional assessment. The committee holds that this might favour the use of mandates more extensively than at present.

The committee advocates extended use of mandates also for shareholdings involving a supplementary objective of ensuring head-office functions of the enterprise in Norway. Owing to the objective of ensuring head-office functions in Norway and the difficult and significant strategic deliberations entailed in certain instances, the commit-

tee presupposes that such mandates should be somewhat narrower than for companies with value-maximisation objectives. The committee believes in this case it should be possible to create mandate 'corridors' within the current majority limits under company law. It indicates that a mandate practice of this nature would be a continuation of a type of decision made formerly by the Storting.

The committee's proposal for a decision-making system based on the ministers responsible to a greater degree being issued with mandates by the Storting, would reduce the number of ownership matters to be debated by the Storting. The committee is of the opinion that governance by the Storting could be improved by enabling the Storting to make overarching decisions, more extensively than it does at present concerning the objects of ownership on the basis of a broad and long-term assessment. When establishing objectives for ownership in an individual company and the associated mandates and allocation decisions, the decision-making basis should include a systematic comparison of the value growth of the companies with the objectives for return on investment. This type of assessment would facilitate broad discussion of state ownership. The committee thereby recommends a programme for the Storting at regular intervals to deliberate the objectives and the extent of goal attainment on an overall basis for state ownership. In this context, the necessary mandates should also be issued.

Besides this kind of political assessment of a more comprehensive nature, the committee advocates the publication of annual ownership reports. The committee argues the case that such annual ownership reports should comprise state ownership in its entirety, and not just those companies that operate with the maximisation of commercial value as their main objective. A complete presentation would provide a full survey of state ownership and contribute to better public insight and democratic control of the administration of state ownership. Effective goal-attainment and showcasing the companies' achievements in value creation are just as important for companies with other main objectives than commercial profitability.

5.2.3 Establishment of one or more independent administrative bodies

The committee is of the opinion that two alternatives exist for organising ownership outside of the ministries; a fund model along the lines of the Government Pension Fund (formerly the Norwegian

National Insurance Scheme Fund) or a holding company model. The committee has discussed only the last of these two models in any detail. The reason for this is that the State's direct ownership involves substantial shareholdings in a number of large companies. It is thus to be expected that individual matters in such companies are to be dealt with by political authorities.

A government fund would basically be an ordinary administrative body governed by an instructing authority. However, special schemes have been created for a number of such funds. This is the case for the Government Pension Fund, the independence of which is founded on provisions that the Fund cannot be issued with instructions in individual investment matters, by either the Government or the ministry. Within the frameworks laid down in its mandate, the Fund has mandates for buying and selling of shareholdings. The committee points out that for the direct ownership, which the committee has been assigned to review, the shareholdings in the various companies would normally represent a controlling interest. The companies may also be wholly owned. In most cases, the vote cast by the State will be of decisive importance. It would not harmonise with the Storting's and Government's actual need for governance and supervision and Article 19 of the Constitution if there were no possibility of political governance through ownership of these companies.

A holding company would be assumed to be under state ownership, through a ministry. The basis for the ownership relationship between the holding company and the ministry charged with administration of the ownership function would be the same as that in other State companies, but with those improvements proposed by the committee. The same rules would also apply to the Office of the Auditor General's rights, and employee co-determination. The holding company would formally and in practice own the companies and exercise corporate governance as a shareholder.

If the decision were made to establish one or more holding companies, a decision would also have to be made on matters such as the formulation of special control mechanisms in the articles of association. The committee's opinion on a holding company model applied to direct ministerial administration concerns more the principle involved. The assessment criteria for this organisation would be the same as for the ministerial organisation, and the concretisation of objectives would also be the same.

Well-functioning markets, the state's handling of roles and decision-making

The committee assumes that a holding company would to a great extent be able to act independently.

A holding company with liability for performance would have incentives for coordinating ownership in a way that might be detrimental to competition. The committee points out that this would have implications for the types of companies that should then be lodged with the same holding company.

The committee points out that, if a holding company were to administrate a large proportion of State assets, this would increase the risk of misguided decisions having broad ramifications. A company of this kind would not itself be part of the State decision-making process, with the opportunities for quality assurance such as are offered by referral and consultation schemes in multiple expert environments.

A holding company would make decisions concerning assets that are currently made by the minister responsible or the Government. Such decisions would thus increasingly be more distant to deliberations between different stakeholders and interests in the State decision-making process. The committee maintains that this would build confidence that decisions are made on a purely commercial basis.

Decisions pertaining to direct governance of a holding company on individual matters would, as is the case for the current organisational form, carry the risk of weakening confidence in how ownership roles are managed. If a company of this kind is expressly mandated to perform administration and has devised an orderly, formalised system for communication between the minister responsible and the holding company, the committee believes this would then foster greater confidence that decisions are made on a professional basis.

The committee points out that the creation of one or more holding companies would require a certain amount of duplicate expertise, since the ministry would still need to have sufficient expertise to be able to control this form of independent entity. However, this could also be seen as a useful means of quality-assuring the work that goes on in the holding company. With this form of organisation, the ministry's work would be devoted more to the State decision-making processes, while the holding company's work would be geared more to the companies themselves. This would serve to

increase specialisation in how the ownership is managed.

The development of an independent environment external to central administration might present a barrier to cooperation and information flows. The committee assumes that the expertise of the holding company could be applied in other state ownership entities according to closely prescribed criteria. If a holding company were to become heavily implicated in State decision-making processes, the benefits of a sharper divide between the ownership role and other roles might however be reduced.

A holding company might be more attractive for recruitment purposes. However, the committee does not see changed competency requirements for ownership representing a solid argument per se for changing the current form of organisation.

Exercising ownership

Much of the rationale for establishing a holding company would rest on the greater flexibility for implementing financial and structural changes, such as investment of capital or changes in shareholdings, without prior consideration of the situation of individual companies by a ministry, the Government and the Storting.

The committee emphasises the importance of the holding company's independent role in such processes. If a holding company cannot be given this scope of action, this form of affiliation would entail yet another hierarchical level in decision-making processes which are already now seen as labour-intensive and time-consuming in relation to the fast rate of adaptation in the sectors in which the companies operate. Insufficient scope of action might lead to disorganisation, among other things in restructuring processes, in that stakeholders would be in contact with the holding company, the supervising ministry, the Government and the Storting in parallel processes.

Single transactions would be of such a nature, either in terms of the size or general implications of changes, that they would have to be submitted for political consultation. However, the committee maintains that if a holding company were to justify its existence at all, such political consultation would have to be the exception rather than the rule.

The committee is of the opinion that a holding company should be granted discretionary powers to adjust shareholdings in the different, subsidiary companies depending on where the capital will best further the holding company's value-maximi-

sation objects. Matters should be brought before the owning ministry or the Storting chiefly where they concern transactions that would significantly increase or reduce the holding company's shareholdings in business and industry overall. The committee proposes that in order to achieve improved control of the holding company's shareholdings, consideration should be given to proposing a separate course of action if the holding company is to completely buy up or sell out of one or more new companies.

The Storting's and Government's control and supervision

The establishment of a holding company such as that outlined by the committee would mean that the Storting and Government would be less routinely involved than they are at present in decision-making processes concerned individual companies. Control and supervision would be concentrated on maximising value in the holding company and the extent of the ownership, not on decisions concerning individual companies.

Where ownership pursues exclusively value-maximisation objectives, the committee assumes that the need for control and supervision beyond the financial dimension is small, and could be provided in a satisfactory manner through a holding company organisation.

The committee therefore recommends in the first place that this form of organisation be considered for shareholdings with exclusively value-maximisation objectives. Important preconditions for such a recommendation are that the Storting provides the necessary scope for action and that the holding company is established according to the procedural principles outlined by the committee. The committee maintains that caution should be exercised as regards the extent and selection of companies transferred to the same holding company in the interests of state risk management and competitive factors.

In the light of matters that should be dealt with politically and challenges arising from an unfortunate concentration of financial power, the committee is not proposing that shareholdings in which ensuring head-office functions in Norway is an element of the state objectives, be incorporated in a holding company. Where ownership is based on specifically defined objectives, similar considerations should apply.

The committee views determination of the objectives of ownership as a task for the Government and the Storting. A holding company organi-

sation would primarily be appropriate for shareholdings with exclusively value-maximisation objectives. In order for increased expenditure on administration to be covered by increased value maximisation, a certain volume of shareholdings would need to be incorporated into a holding company. The committee's recommendation should thus be considered in the light of the financial and administrative consequences of a holding company organisation once the Government and the Storting have assessed the objectives for the various shareholdings.

5.2.4 Statements from the public hearing

The consultative bodies generally support the committee's assessments and recommendations.

The ministry has chosen to reproduce the consultative statements grouped by topic and the committee's most important recommendations. The consultative statements from other ministries are in the public domain, but new ministerial consideration of the preparatory committee's recommendation in connection with this Report to the Storting has meant it is not appropriate to cite these statements in the present text.

5.2.4.1 Clarification of ownership objectives

The Norwegian Financial Services Association states that identification of state objectives is of particular importance in situations where the value-maximisation objective is counteracted by other political objectives for state ownership. This will serve to ascertain any drawbacks to the policy pursued at any time and thus provide valuable supplementary information for the democratic process forming the basis for decisions made by the Government and the Storting.

The Association therefore shares the committee's view that clarification of the objectives would be a positive contribution to improved state ownership.

The Norwegian Confederation of Trade Unions (LO) does not believe there is any realistic alternative to comprehensive state ownership in Norwegian business and industry. This makes it all the more important for the State to exercise sound ownership of its enterprises. LO asserts that a transparent and predictable state ownership policy is well overdue and that, for the companies concerned, it is all-important for the Storting to proceed to lay down clear-cut objectives for its ownership. State ownership of strategic enterprises will preserve more jobs and boost value creation. This

will have positive spin-off effects for the undergrowth of Norwegian sub suppliers. Broad agreement on the principles of state ownership will be of essence for the state-owned enterprises, for growth in the sectors concerned, such as the energy sector, and for society as a whole.

LO believes that the development of Norwegian business and industry will depend on a proportion of major companies being firmly based and headquartered in Norway, since the headquarters are where decisive strategic decisions are made, and are accompanied by important staff functions, research environments and industrial developments. At the same time, this will ensure that companies are remaining in everyday life in Norway, its politics and value creation.

LO is pleased that the committee's recommendations assert that state ownership is important for Norwegian business and industry. Furthermore, LO maintains that the State as a large capital owner should play an active role in Norwegian business and industry. Equally, the Confederation cites the committee's emphasis that state companies should take the lead in social responsibility. LO is fully in agreement and refers to the fact that this responsibility concerns equal opportunities, occupational health and safety, employment conditions, local communities, human rights and ethics.

The Norwegian Employers' Association for Businesses linked to the Public Sector, NAVO, agrees with the committee's recommendation that the State should clarify the objectives for its ownership. This form of clarification would facilitate state assessment of company performance and state determination of return targets, while it would also make it easier for the companies to formulate their strategy.

NAVO agrees that companies where the State is a shareholder should take the lead in social responsibility.

NAVO endorses the committee's emphasis that ownership objectives might well change over time. The committee has not decided which objectives may best be realised through state ownership, as opposed to other instruments. In that context, NAVO would emphasise that the State should exercise caution in practising sector-policy control through its ownership. There are a number of other control instruments besides ownership that could be employed in sector-policy control. If an enterprise operates in a competitive market, it might damage the State's credibility, both as an owner and as an authority, to exploit the ownership role for sector-policy purposes. In such cases, other instruments, such as sector legislation, regu-

lations, licenses, public tenders and contracts would serve the State better in realising political objectives. Similarly, in other instances, where no competition exists, greater predictability could be achieved in the framework conditions by employing instruments other than owner control in pursuing sector policy.

NAVO backs the proposition that the four objective categories in the recommendation provide a useful starting point for clarifying the objectives of state ownership.

NAVO points out that the committee has not attempted to place any of the state-owned enterprises within the various objective categories it defines. Although definition of the objectives of state ownership is a political task, and bearing in mind that the objectives may change over time, NAVO comments that it would have been simpler to assess the expediency and relevance of the proposed categorisation if it had been exemplified. NAVO comments that it is particularly difficult to determine which companies would sort under objective category 3: companies with specific defined objectives, in addition to commercial value maximisation, and objective category 4: companies with sectoral policy objectives. In clarifying the objectives of ownership and sorting individual companies into the proposed categories, NAVO holds that it should be emphasised that the specified political objectives are to be pursued through instruments other than corporate governance. From the enterprise perspective, it is important that their categorisation is not static. There are a number of examples of companies having changed category.

NAVO notes the committee's recommendation that companies with commercial objectives and major social remits are to attach importance to highlighting the costs involved in fulfilling those remits. From the enterprise perspective, this would mean greater certainty with regard to performance requirements and would promote greater predictability and legitimacy in relation to how the remit is discharged.

The Confederation of Norwegian Enterprise (NHO) cites its publication *Eierskapspolitikk for økt verdiskapning* (Ownership Policy for Increased Value Creation) which emphasised the fundamental importance of the State defining its objectives for its shares in each individual company. This should consequently be the basis for discussing organisation of the enterprises.

NHO points out that explicit objectives would also be of significance for a number of other factors than the organisation of state ownership. The State

owner would be in a better position to evaluate company performance, the company would find it easier to deal with strategies and plans, and all the company's stakeholders would have a more rational perspective on the company.

NHO maintains that one main consideration would be whether the company is to pursue value maximisation as its sole objective or if this is to be combined with other objectives. If the enterprise is to serve politically determined objectives, it moves onto a scale, which at the outer limits embodies such explicit social objectives that there is scarcely any notion of it being involved in commercial activity. In instances where the company has to achieve primarily political objectives, it is important that the State as an owner is able to record how successfully these objectives are achieved and whether the cost of achieving them is rational for society.

NHO thus emphasises that the need to define explicit objectives and to establish a system for reporting performance, therefore not only applies to enterprises with commercial objectives, but also to other state-owned financial undertakings.

NHO refers to the committee's objective category designated «Commercial value maximisation objectives and ensuring head-office functions in Norway». Given the lack of sufficiently strong private ownership, NHO maintains that the State is in a position to achieve this kind of impact in Norway.

Since «ensuring head-office functions in Norway» is part of the public debate about state ownership, NHO sees it as important to clarify what the concept involves. The concept should not be perceived as a peculiarly Norwegian form of nationalism and protectionism, since if that were the case it would be highly detrimental both for Norway in international economic cooperation and for the companies that compete abroad. NHO stresses that the political authorities should base their deliberations on the sense of the concept defined by the committee. It should be clearly stated that Norway seek to ensure head-office functions in the same way as other countries do for key segments of their business and industry. One problem might be that this is more evident in Norway because the country has a unique and less varied industrial structure than other nations. NHO believes that this makes it all the more important for Norwegian political authorities to exercise state ownership in a way that demonstrates that Norway is not seeking exceptional status, and that it will not go further than necessary in pursuing its commitment to ensuring head-office functions in Norway. NHO notes that, based on the statements of changing

governments and parliamentary committees, the committee interprets «ensuring head-office functions» as meaning that company headquarters are to be localised in Norway and that company boards and management groups should be made up of Norwegian decision-makers. The committee indicates that this will ensure that strategic decisions are made in environments with an informed view of the potentials for investing and operating in Norway and foster the right conditions for retaining expertise that is vital for national business growth.

Closely connected with the need to clarify the objectives of state ownership is the question of how much the State needs to own, i.e. how many shares are relevant in the various companies in order to achieve the State's objectives for its ownership. This applies not least in companies subject to the commitment to ensure head-office functions in Norway. NHO points out that political views of this will differ. On the one hand, some might want the State to have a majority, or even two-thirds in order to exert active control over the company. On the other hand, there will be positions that are particularly applicable to what, in the Norwegian context, are large listed companies. In order to influence the localisation of the company's business office, it is sufficient to hold more than a third of the shares. In listed companies, with dispersed ownership, this will also be sufficient to secure an ordinary majority at the general meeting. NHO maintains that if the State as the principal shareholder clarifies this type of policy, it would have a number of positive effects. As indicated by the committee, it would signal to the market that the State is exclusively committed to ensure head-office functions in the sense defined here. This might also have other positive impacts on the Norwegian capital market. Another issue is that any divestments should be organised in such a way that is generally appropriate for this market.

NHO believes that the conditions may present themselves quite differently for companies in which the objective of ownership is to assist in realising specifically defined objectives, in addition to commercial value maximisation. Such undertakings may have a varying degree of commercial orientation, while at the same time being committed to special remits for the State, such as managing the production of products and services within certain sectors. The administration of state ownership will in such cases obviously be more complex. This may make it difficult for the State to attract other shareholders, who for their part off course will be interested in the financial return that is the principal aim of a business enterprise. The very fact that

this makes assessment of goal attainment complicated, makes it vital for these companies to have established the best possible reporting system so that it can indicate deviations from commercial return targets, and so that the costs of the specifically defined objectives can be substantiated.

The Norwegian Competition Authority points out that clarification of the objectives would facilitate assessment of company performance and thereby the efficiency of the company's operational activities. Furthermore, it will make state-owned enterprises more attractive both as business partners and for investors. Insofar as private co-owners or potential investors take on a risk premium against the State pursuing special interests, a so-called «government discount», a clarification of the objectives of state ownership would reduce this and the value of state ownership would increase.

Kredittilsynet, the supervisory authority for financial services and the securities market, endorses the committee's position on the importance of setting and communicating explicit objectives for Norwegian state ownership. In the committee's assessment of the different categories of objective in Chapter 8, Kredittilsynet took note of the discussion of objective category 2 – the combination of commercial value maximisation objectives and ensuring head-office functions in Norway, including the pertinence of the latter (sub) objective seen in relation to Norway's international commitments. Kredittilsynet is of the opinion that it would clearly be vital to retain financial sector head office activities in Norway. Kredittilsynet refers among other things to discussions concerning this issue in Norwegian Official Report NOU 2000:9 Competition interfaces in the financial sector. Kredittilsynet asserts the importance of emphasising this in the debate on ownership, because, to a great extent, the EEA Agreement and other international commitments will prevent head office functions and national foundation being guaranteed through special laws and rules with that specific aim, certainly in the financial sector. State participation as an owner may therefore from some perspectives be appropriate within the financial sector.

In discussions of the importance of formulating explicit objectives, the committee indicates that this is also important in reducing the risk of isolated political moves creating uncertainty in the capital markets about the objectives on which state ownership is based. Kredittilsynet shares the view that the actual conduct of politicians and other key individuals in authority might be of importance for confidence in the State as an owner.

5.2.4.2 *Use of allocation mandates and mandate corridors*

The Norwegian Confederation of Trade Unions (LO) refers to the committee's clear signals about how state ownership entities can be made more competent, orderly and proactive. The committee's recommendations concerning more expedient governance and extended mandates for those who are to administrate state-owned assets, among other things through mandate corridors, would, in LO's opinion help to prevent confusion of roles and ill-defined division of responsibilities.

The Norwegian Employers' Association for Businesses linked to the Public Sector, NAVO, supports the committee's proposal concerning extending the use of mandates associated with the implementation of changes in shareholdings and/or the investment of fresh capital. As regards injection of capital, the State has often assisted in this when needed. NAVO shares the committee's view that the decision-making process may be lengthy and unpredictable from the perspective of the enterprise.

As regards changes in shareholdings, NAVO supports the concept of so-called mandate corridors within the current majority limits in company legislation, as proposed for companies in category 2. NAVO also believes that this model should be applicable to companies in category 3, i.e. for those who operate with both more specifically defined objectives and commercial value maximisation objectives. The crucial question is whether they are to be wholly owned or part owned. This will in any case be a political decision. NAVO indicates that if part-ownership is chosen then, this will convey that state ownership is not an instrument for furthering sector-policy objectives.

At the same time, NAVO is somewhat in doubt as to whether it is possible to make precise implementation rules for this for each of the four categories of company. Decisions about the scope of the mandate issued to the minister responsible will need to be made for each individual company.

These decisions will also need to take account of the fact that categorisation of the companies cannot be static. NAVO refers to the fact that several of its affiliated members have moved between the four categories. NAVO also indicates that practice reveals that a company's shift from category 3 or 4, to divestment being required and the State having to withdraw completely can happen in a short space of time. This entails that categorisation must be flexible and that the companies' placing be continually reviewed.

NHO points to the fact that the need for the State to both define its ownership objectives and, on that basis, to determine how large a shareholding will be required, will influence whether a mandate system can be devised between the Storting and the minister assigned to exercise ownership on behalf of the State. In which case it will be necessary to have clarified between the Storting and the Government for how long shareholdings are to be kept, the amounts that can be made available and so forth. In NHO's opinion, the basis for this would have to be a thoroughly considered position on state ownership, which is also fixed over a certain period of time and not subject to fluctuations influenced by the political mood of the day.

Other external consultative authorities that have commented on mandates/mandate corridors endorse the committee's assessments and recommendations.

5.2.4.3 *The introduction of the normal rules of the Limited Liability Companies Act concerning dividend decisions for wholly-owned companies*

LO agrees with the committee that State dividend policy for wholly owned companies needs to be made more predictable and cites the committee's proposal that the normal rules of the Limited Liability Companies Act on dividend decisions should also be applied to state limited companies and state-owned enterprises. The companies' payment of dividends to the State must be compatible with their long-term strategy, and not so high or so unpredictable that growth of the companies is undermined.

The Federation of Norwegian Commercial and Service Enterprises (HSH) comments that explicit rules should be established to prevent company dividend policy being part of balancing the State budget.

The Norwegian Employers' Association for Businesses linked to the Public Sector, NAVO, agrees with the committee's assessment that the State's dividend policy and dividend decisions regarding the wholly owned companies has often been too unpredictable. Dividend decisions that are not based on the company but on the financing needs of other measures in the state budget impair corporate management's ability and opportunity for strategic planning. This results in the room for financial action being unpredictable and non-transparent. NAVO therefore welcomes the committee's proposal that the normal rules of the Limited Liability Companies Act on dividend decisions also

be introduced for wholly-owned limited liability companies and state-owned enterprises. This will provide the companies with greater predictability and better their options for strategic planning.

Statnett SF (owner and operator of large sections of the Norwegian power grid) agrees with the committee's recommendation that the State should clarify its expectations from the companies in order to assure predictability. This applies to dividend decisions, requirements regarding return on investment determined on the basis of company-specific factors and qualitative goal attainment of special social objectives. Statnett emphasises that explicit expectations from the owner will serve as a useful benchmark for the company's own assessment of its activities. In addition this will serve to create predictability concerning the company's future and make it better able to protect its interests and to determine its business strategy.

Statnett stresses the importance of capitalisation, return requirements and dividend policy taking into account the company's need for long-term commercial growth and attainment of politically determined objectives for societal development. Statnett, for its own part, is subject to a politically determined objective of reliable electricity supply.

Other external consultative bodies that have commented on the question of amending the rules regarding how dividends are decided on in wholly-owned State enterprises, endorse all the committee's proposals for introducing the normal rules of the Limited Liability Companies Acts on dividend decisions in state limited companies and state-owned enterprises.

The Ministry of Justice and the Police pointed out that the committee had apparently not assessed the constitutional aspects of repealing the provisions in the Limited Liability Companies Act/Public Limited Companies Act which prescribe that the general meeting in a limited liability company wholly owned by the State is not bound by the board's and corporate assembly's proposals for distribution of dividends. Further consideration of the proposal would therefore have to be considered more closely in this context.

5.2.4.4 *The establishment of a holding company for administration of those parts of state ownership that operate with exclusively commercial objectives*

The Norwegian Financial Services Association (FNH) comments that, seen in isolation, the use of a holding company would serve to create a sharper divide between the State's ownership role and its

other roles, and would thus contribute to securing state assets and solid industrial growth for the companies involved. The success of this type of model, as compared with a ministerial model, will however depend on the Government and the Storting assuming a distinctly more supervisory role in governance of the companies than is presently the case.

NAVO notes that the committee offers no explicit recommendation regarding the establishment of holding companies for administration of state ownership. NAVO concurs with the objections and weaknesses identified by the committee concerning a holding company model for administration of state ownership.

The Confederation of Norwegian Enterprise (NHO) approves of the committee's review of the use of holding companies, which it finds to be comprehensive and thorough. NHO also expects this review to provide clarification in the debate on the use of holding companies. In this way it should be possible to create a calmer atmosphere around an important aspect in the organisation of companies with very great significance for the Norwegian economy.

The Federation of Norwegian Commercial and Service Enterprises (HSH) points out that confidence in the State as an owner will primarily depend on whether other participants realize that the owner function's decisions are actually made on a well-informed basis. The confidence of the public and in the market will be achieved more as a result of the resources, the expertise and culture that emerge out of the practice of ownership, than a particular choice of organisational model.

The Norwegian Shipowners' Association believes that there is much in favour of the committee's arguments for a holding company model for state shareholdings, but that there would also be counterarguments against this kind of change. Whatever the case, given that this is state ownership, the Government and Storting are ultimately responsible for measures taken within the companies. The Shipowners' Association comments that the proposed holding company model might lead to situations involving far more uncertain division of responsibilities. In all probability, a strong bureaucracy would arise in a holding company. For the Government and the Storting, it would obviously be more difficult to check and review management decisions in a holding company than is the case at present. This might actually result in discrimination against competing private companies. Management of the proposed holding company would assume a far stronger position and

might become a great deal more self-willed since, in practice, it will scarcely be easy for the owners to dismiss management. There is a considerable risk that this management would be able to operate with its own agenda, one that does not coincide directly with the overarching objectives. On this basis, the Shipowners' Association has reservations about going as far as the committee proposes in establishing a new, heavily bureaucratized body invested with power. The obvious weakness of the current state ownership should not be compensated for by introducing a new system with other serious weaknesses. Instead, we should seek out the best solution, which in the Shipowners' Association's opinion, would be a gradual privatisation of the State's commercial ownership combined with proactive initiatives to promote the creation of private equity.

The Office of the Auditor General points out that the practical consequences of a holding company organisation will require further consideration. The Office of the Auditor General therefore requests that it be permitted to comment in any submission to the Storting containing proposals for changes to future organisation of the State's commercial ownership to allow it to make an overall assessment of the consequences for auditing.

The Norwegian Competition Authority comments that the establishment of a holding company would probably draw a sharper divide and give the impression of greater distances from political processes than would be entailed by a move to the Ministry of Trade and Industry. In creating one or more such companies, in each specific instance the benefits in the shape of greater distance between the role of regulator and more professional ownership will need to be weighed up against any competitive limitations and costs in terms of expertise.

Kredittilsynet points out that irrespective of whether the function of owner is to be exercised by a ministry or a holding company, it is important to make a specific assessment of what mandates may be issued by the Storting to the administrator of the ownership role without this coming into conflict with constitutional processes, in order to ensure sufficiently rapid decision-making from the perspective of the companies.

The Government's positions

The preparatory committee on state ownership's assessments concerning a holding company are reviewed in Chapter 7.7. The recommendations concerning clarification of the objectives for ownership are discussed in Chapter 7.5 of the report

and specifically in the companies survey in Chapter 8. The assessments and recommendations concerning increased use of mandates/mandate corridors are discussed in Chapter 7.8. The proposal

regarding the introduction of the normal rules of the Limited Liability Companies Act on dividend decisions for wholly state-owned companies is discussed in Chapter 7.9.

6 The Government's positions on the supply of capital for Norwegian business and industry

The main tasks of the capital market are to channel capital to where it provides the greatest return on investment, to spread risk and facilitate payment and settlement. The capital market is business and industry's source of external financing, and consists of both public and private players. In addition to providing financing of business and industry, owners can also contribute expertise vital for the companies. The Government views a diversity of ownership as a strength for business and industry's access to capital and expertise.

In the Norwegian mixed economy, the State holds a relatively large percentage of the total share capital. At year-end 2005, the State owned 34.3 percent of the shareholder values on Oslo Børs. Foreign investors play a key role, and in recent years have accounted for 60 – 70 percent of daily trading on the Oslo Børs. In autumn 2005, foreign investors overtook the public sector as the largest ownership sector with shareholdings worth 37.1 percent of the shareholder values on Oslo Børs.

National ownership is one instrument that serves to ensure that companies retain their headquarters and research activities in Norway. Foreign ownership for its part serves to provide transfer of expertise from international environments. The development of the petroleum sector demonstrates the benefit of an interaction between foreign capital and expertise, and a strong national and state ownership commitment. State ownership as a form of organisation has provided a platform for Norwegian companies in the petroleum sector to develop expertise that in turn can be exported to other parts of the world.

One general problem in the capital market is that the party who requires capital and an external investor often have different information about the investment. If the enterprise has better information than the investor, this reduces the investor's means of distinguishing good from bad projects. The result may be that investors are reluctant to invest in a venture in spite of the fact that its commercial prospects seem to be sound. The disparities in information between company and investor

seem to be greater when the company is at an early stage of its development.

The Government maintains that on the whole there is no shortage of capital in Norwegian business and industry. However, it believes that challenges still exist in segments of the capital market and that the future will reveal a need for strategic investments. State ownership may prove decisive in ensuring head-office functions of key enterprises in Norway in the years ahead. We are seeing an increased tendency for Norwegian knowledge based enterprises to be sold off as soon as they reach international standing. Norway is reliant on good contact with strong international competency and capital environments, and in many instances the sale of a company may result in our failure to establish long-term knowledge and competency environments in Norway. We risk undermining the results of long-standing research and development, which are not in any way reflected in short-term share prices. Consequently, we need to devise a better strategy for ensuring national ownership of key enterprises in the knowledge society. The commitment to the Soria Moria Declaration will contribute to remedy this.

Promoting investments in the capital market also means having promising projects to invest in. Measures to bring projects to a stage at which they become commercially attractive to private capital may also be a step towards promoting value-creating enterprise.

6.1 Access to capital for start-ups/entrepreneurs

Entrepreneurs have a need for both capital and expertise concerning business opportunities and further development of their products. That need varies however, depending on where in the start-up phase the individuals find themselves. The earlier on they are in the phase, the greater the need for a system whereby the investment of capital can be linked into an offer involving demand for «knowledge services».

The Norwegian Government's Soria Moria Declaration states that the Government will be looking to establish an entrepreneur bank. There are already state schemes in operation for promoting enterprise start-ups. The majority of the existing initiatives are coordinated under Innovation Norway. The authorities offer various types of scholarships, grants and loans for the development and establishment of enterprises, for developing and adapting inventions and for participation in incubators. In some of the schemes, the districts are prioritised. Through the innovation policy instrument system, dedicated programmes have also been set up for expertise and networks.

An investment bank would be one means of further coordinating measures aimed at start-ups. There may be a need to facilitate coordination in cases where it is appropriate to employ different schemes simultaneously in a project, and in order to streamline a project and simplify applicants' opportunities for finding out about all the various schemes.

On this basis, the Government intends to institute a survey of how start-up financing can be improved, including assessing the establishment of an entrepreneur bank, improvements to the instruments for start-ups under Innovation Norway, and other instruments.

6.2 Commercialisation of research-based business concepts

The Government believes that Norway still faces a challenge in exploiting its research investments for value-creating undertakings.

Increasing investments in the capital market is also a question of having sound projects to invest in. Commercialising the results of research promotes the development of new products, services and new enterprises. Thus, the commercialisation of research results is significant for the adaptability of Norwegian business and industry. By fostering conditions conducive to the uptake of research-based innovations with commercial potential, Norway will be able to generate further profitable business activities. This applies to research-based innovations from both research institutions and private firms.

Through legislative amendments in recent years, the universities and technical colleges have gained new opportunities and a more explicit responsibility for commercialising their research results. The universities and technical colleges have seen a considerable increase in activity in this



Figure 6.1 There are great expectations in the market for further commercialisation of farmed cod. Fisheries research is responsible for the National Cod Breeding Programme. The new breeding facility at Kraknes near Tromsø is currently under commissioning. Experience garnered from salmon breeding indicates that an active breeding programme is one of the most important factors in successful commercial production of cod. Cod fry is particularly sensitive to the initial feed. The photo shows feeding of cod in tubs at Ewos Innovation.

Photo: Øyvind Risnes, Ewos AS

area. The Government will further develop the instruments that support and follow up on the commercialisation activities ongoing at Norway's research institutions.

There are also grounds for questioning whether Norway has untapped potential for commercialisation of research results in the shape of spin-offs from existing business and industry. The Government will therefore be following up the instruments for commercialisation of research-based innovations in Norwegian enterprise.

Within the framework of research grants, the Government will be giving priority to initiatives that contribute to enhance commercialisation of research-based business concepts.

6.3 Increased State capital in the market for non-listed shares

In the Government's opinion there is no apparent lack of capital in the market for non-listed shares (often referred to as the private equity market, see box 6.1). Firstly, this is due to a substantial increase in access to capital in recent years. Secondly, the problem is just as closely linked with access to sound and relevant venture projects.

Box 6.1 In collaboration with the private sector the State has increased access to private equity in Norway

Private equity (PE), or active owner capital, is the designation for share capital in non-listed companies. The market is an important source of financing for new start-ups and young companies. The market also finances restructuring of more established undertakings.

In private equity, investments in companies for capital owners are placed by specialised investment managers (so-called venture and buyout funds). Early-stage companies or companies undergoing restructuring require not only capital but also expertise and networks in order to succeed. This is offered by specialised fund managers. By actively contributing both capital and expertise, the aim is to generate growth and greater profitability. Private equity funds are therefore important for innovation and readjustment in an economy.

The Norwegian private equity scene has evolved rapidly in recent years. The establishment of the public investment fund Argentum Fondsinvesteringer in 2001 with a capital base of NOK 2.45 billion, has contributed to this growth. As an investment fund, Argentum invests in specialised investment companies who in turn invest in companies (fund-in-fund model). Argentum buys only minority shares and the business is restricted to the Norwegian and Nordic PE market. The company is headquartered in Bergen, with a branch office

in Oslo. As at mid-May 2006, Argentum had committed itself to investments worth approx. NOK 2.6 billion in 17 different funds. This has brought, or will bring, Norwegian business and industry innovators approx. NOK 6.7 billion in risk capital from Norwegian and international investors.

Through a government seed funding scheme managed by Innovation Norway, long-term, subordinate loans are offered to private investment companies who focus on investments in the initial phases of start-up enterprises.

In the period 1998 – 2000 the seed funding scheme served to establish one national and five regional seed funds. Committed capital in these funds at mid-2006 totalled NOK 776 million, of which loans from Innovation Norway accounted for NOK 388 million.

In 2003 and 2004 it was decided to establish further seed funding schemes. Through the new seed funding schemes the aim is to establish ten new private seed funds. Four funds are to be national and six are to be geared to the Norwegian districts. Fully capitalised, the new seed funds will have NOK 2.4 billion under their management, of which NOK 1.37 billion are subordinate loans from Innovation Norway. At mid-October 2006, three national and one district fund have had committed the necessary private capital.

Source: Argentum and the Ministry of Trade and Industry

However, this does not mean that all projects that should have financing actually get it. A filtering of projects in these phases is commonplace. A US study reveals that only 1 per cent of enterprises that applied for investments from projects funds actually secured them (Lerner 2002). Nonetheless, the Norwegian Government believes that there is justification for the State to engage in this market.

Purely from the market perspective, there would normally be reason to assume that the Norwegian State, as a substantial financial actor in both the Norwegian and international financial markets, would keep some of its capital in non-listed enterprises in order to achieve satisfactory diversification of its portfolio. A second argument for State

involvement in the market for unlisted shares is the institutional basis. The ventures segment is a relatively recent phenomenon in Norway. It may therefore be the case that the institutional basis in Norway is weakly developed compared with other countries. A public fund based on market return requirements, i.e. with an objective of achieving as high a financial return on investment as possible has the external effect of professionalizing the market.

A third reason is that the State has the option of engaging in projects if they would be profitable for socioeconomic purposes and would not be able to secure financing through private schemes. State involvement on these grounds requires evidence

of such profitability potential and that the authorities are in a position to realise this potential. The anticipated return on such projects should be proportional to the risk they represent.

6.3.1 Argentum

Argentum is a government-owned investment company that participates with minority shares in specialised private equity funds. Besides requirements regarding return on investment, a fund-in-fund is charged with developing manager environments by imposing requirements and providing follow up for the investment companies. Argentum has had this type of role in developing the Norwegian market for non-listed enterprises. Increasing investments in Argentum will serve to increase the risk-adjusted anticipated return on the State's total financial placements. This type of solution also allows existing expertise on this market to be utilized, which increases the probability of a positive return on investment from the fund. One positive external effect of increased investments in Argentum will also be that this contributes to further building of the market's professionalism.

On that basis, the Government will be following the capital situation for Argentum, including performing a detailed evaluation, before possibly returning to the Storting with questions concerning the supply of more equity capital.

6.3.2 Seeds

The Government maintains that insofar as capital is lacking in the Norwegian capital market, this is most likely in the earliest phases. In recent years, the State has been involved in setting up a number of new seed funds under private ownership, to which the State contributes risk mitigation and subordinate loans. The 10 new seed funds will in total furnish the market for seed ventures with NOK 2.4 billion if they are fully subscribed. Of this, the government loan amounts to NOK 1,367 million. It is expected that private investors will provide the remainder. The Government will be assessing whether the State should increase its contribution to the seed funds, including reviewing whether it is more expedient to contribute equity rather than loan capital through a fund-in-fund structure of the same type as Argentum. This review will be considered in the context of the general review of requirements to be performed, cf. Chapter 6.5, Reviews of other funds.

6.4 Marine funds

The Government will be contributing to opening up opportunities for increased value creation, as it exists in the marine sector. The marine sector consists of traditional commercial fishing, aquaculture and sea farming, the fisheries industry, service providers and producers and new industries based on the exploitation of marine resources. The majority of these activities are located on the Norwegian coast and represent an important foundation for profitable and secure employment.

The State is currently a substantial contributor to public investments in relevant marine research in which the commercialisation of research is also a prioritised area. The industry itself also contributes actively to financing through the Fishery and Aquaculture Industry Research Fund with close to NOK 100 million per annum (tax on exports).

The already established seed funds are also a source of capital for projects in the marine sector. At the same time, the marine sector receives considerable financial support through the instruments managed by Innovation Norway. Innovation Norway also manages a marine value-creation programme, amounting to a proposed framework of NOK 75 million. As of 2007, within the value creation programme, funds can be used for selected development projects capable of marketing the marine sector and generating higher prices in the Norwegian enterprises' end markets.

Norway is currently a large supplier of unprocessed fish. The high level of costs in Norway is one of the factors that make it challenging to compete in the fish-processing sector. There are also considerable risks associated with the necessary innovations in technological development, equipment and new solutions for strengthening the marine value chain's links to markets with high purchasing power. Technology and process development will promote better use of the advantage inherent in having direct access to the fresh raw materials.

The development of new aquaculture species is a promising area for future value creation in the marine sector. However, one fundamental problem is that it takes a long time to get fish breeding, disease and survival generally under control. Fish farming is also risk-laden because of the long production time from when the fry is released into the pens until the fish are ready for harvesting, while the capital tied up in the biomass in the sea is substantial.

The exploitation of marine resources through biotechnology / bio prospecting also holds value-creation potential, but the risk is very high inter

alia due to the fact that it can take up to 10 years to provide return on investment. Commercialisation of products based on biotechnology usually entails intensive and research-based development processes and costly documentation of the products used as ingredients in medicinal products and the like. Commercialisation therefore requires substantial access to long-term, expert and venture capital (both equity and loan capital).

It is important that developments in the marine sector are achieved jointly between private and public actors, and private actors play a key role on the financing side. Government aid will consist of venture capital, including owner's capital.

On that basis, the Government propose to set up a separate national fund for marine industries. The final structure and organisation of the fund will require further consideration.

6.5 Reviews of other funds

The Government will review the need for and the possible structure of national funds in order to promote improved access to capital in areas where a special need is identified.

7 The Government's ownership policy

7.1 Background and introduction

The Government's political platform, the Soria Moria Declaration, states that:

«A diversity of ownership in Norwegian industries is a strength for providing access to capital and skills. There is a need for diverse ownership, private and governmental, national and foreign. National ownership is important to ensure that the businesses have the head office and research activities in Norway. Foreign ownership, for its part, assists in ensuring growth and the build-up of competence.

The State is a major owner of Norwegian business. State ownership guarantees our control over our shared natural resources and provides revenues for the common good. State ownership can be decisive in ensuring national ownership and ensuring national head-office activities of key businesses in Norway in years to come. Public ownership is important to safeguard key political goals within district, transport, cultural and health policies.

We are seeing an increasing trend for Norwegian knowledge businesses to be sold as soon as they achieve international standing. Norway depends on good contacts with strong international capital and competency environments, but in many cases, selling out means that we do not build up long-term knowledge industries and expertise in Norway. We risk undermining the results of long-term research and development, which are simply not reflected in short-term stock-market values. A better strategy must therefore be developed for ensuring national ownership of key businesses in the knowledge society.

The Government aims:

- to secure strong public and national ownership to achieve key political objectives and ensure returns and revenues for the common good.
- for public companies to be ensured professional ownership and a predictable dividend policy. State ownership should be far more active than at present. Research and development will be aggressively targeted. State-owned companies shall lead the way in equal opportunities for gender, and mea-

asures shall be implemented to achieve greater transparency and awareness regarding executive salaries in companies where the State is a major owner.

- for our energy resources to be the property of the entire population. We will therefore maintain strong public ownership of our hydro-power resources and our petroleum deposits.
- to ensure continuing strong state ownership of petroleum resources through the State's direct financial interest (SDFI). SDFI must continue to be able to acquire shares on the Norwegian Continental Shelf, and SDFI's overall ownership shall be maintained at present levels.
- to maintain State shareholdings in major companies such as Telenor, Norsk Hydro and DnB NOR. Telenor shall remain a Norwegian company, with its head office and most significant research and development functions in Norway. Statnett and Statskog shall not be sold or part-privatised and the current level of ownership of Statoil shall be maintained.
- for Statkraft to be retained as a wholly-owned State company.»

Companies with State shareholdings manage substantial economic and socially beneficial assets. The State is an owner of some of the country's largest companies in order to ensure that national ownership of key activities that contribute to the centres of excellence associated with head office functions and research and development activities remain and develop in Norway. This makes the State an owner of undertakings that are highly significant in Norwegian industry and society. Ownership of companies such as Statoil and Norsk Hydro has made a considerable contribution to industrial growth, research and development, as well as skills building on a broad basis in Norway. State ownership in industry helps to ensure the right of disposal over shared natural resources. The State's ownership of important infrastructure companies, of cultural institutions, hospitals, Vinmonopolet and Norsk Tipping goes towards achieving important sectoral policy objectives.

Box 7.1 Telenor: From administrative agency to world-class mobile operator

Twenty years ago there was still a waiting list to get an ordinary telephone line installed in Norway. In the intervening years we have experienced a revolution in information and communications technology, with access to mobile telephony in particular seeing massive growth over the last decade across the world. Through its conversion of the Televerket telecommunications agency into a public limited liability company in 1994 and the part-privatisation and stock exchange listing of Telenor in 2000, the State has enabled Telenor to capitalise on its high-level of communications technology expertise by taking an active role in this development. In 1995, Telenor had just over half a million mobile customers. After the stock-exchange listing in December 2000, the number of subscribers grew to nearly 6 million mobile customers. Adding together all the mobile subscriptions in all the companies Telenor has ownership interests in, by March 2006, the company had some 90 million mobile subscriptions. Telenor gained its 100 millionth mobile customer in September 2006, making the Telenor group one of the world’s leading mobile operators in terms of subscriber numbers. This strong growth has come from the mobile phone markets in Ukraine, Russia, Thailand, Malaysia and Bangladesh. Together with Pakistan and Serbia, these markets may be capable of producing similar strong growth in subscriber numbers for Telenor in the years ahead.



Figure 7.1

Photo: Fredrik Boudin

Source: Telenor and the Ministry of Trade and Industry

A number of Norwegian companies have enjoyed solid industrial growth and value creation with the State as a shareholder. The Government believes knowledge development, innovation and research in Norwegian industry are important, and that this can be promoted through active, industrial state ownership.

The Government is committed to raw materials produced in Norway being processed here as well, where economically justified. Where Norway has access to high-quality raw materials, it is important to see the entire value chain in context.

The Government will maintain robust public, national ownership in order to ensure solid industrial growth and achieve returns and revenues for the common good. Companies where the State is an owner shall be ensured of professional and active ownership and a predictable dividend policy. The State as an owner has the capabilities required for this. It can be a long-term and stable shareholder.

The State’s direct ownership interest in companies is large in financial terms, but restricted in the number of companies. A diversity of ownership, as we have here in Norway, is a strength in terms of access to capital and skills for Norwegian companies. This interaction between Norwegian and foreign private capital and public capital is important for developing Norwegian companies, as we have seen, for example, in Norsk Hydro, Statoil and Telenor.

In simplified terms, types of ownership can be characterised along two primary axes: Time frame and economic orientation; see Table 7.1. The State shall be a long-term industrial owner.

State ownership contributes to a greater degree of long-term engagement and hence to greater stability on the part of the owners. This contributes to ensuring national ownership of some of the largest companies in the country. The importance of long-term engagement, stability and permanence of ownership in Norway means that the State, through its direct ownership, also plays an important economic policy role in the country.

Table 7.1 Types of ownership

Time frame	Financial	Industrial
Short-term	Day trader, hedge fund	Investment fund
Long-term	Pension fund	Companies and major private investors

A challenge of long-term ownership can be excessive patience and a passive relationship with the companies' executive management. Passive ownership allows room for executive management dominance, and for companies to be managed with different goals from those of the owners. A sound state ownership commitment is dependent upon the State being active in its ownership. The State must be as active and professional in the exercise of its ownership as private owners of a similar type. Such an active ownership role must be exercised within the framework of recognised regulations for corporate governance and commercial management. Three areas are of particular importance in following up ownership: the election of boards of directors and corporate assemblies, clarification of the State's objectives for its ownership, and follow-up of the enterprise's finances in a broad sense.

As an owner, the State will be active in appointing boards and corporate assemblies with an appropriate mixture of the relevant skills. The appropriate composition of governing bodies varies depending on the type of the enterprise and the objectives the owners have for the company. Active industrial ownership relies on a combination of market expertise and commercial insight and efficiency. For the State as owner, it is important for the companies to have industrially and financially competent boards, which are capable of exercising effective supervision of the enterprises. The boards should also lead the companies' strategic work. A sound understanding of the company's role in society and of the individual company's significance for overall industrial development is therefore important. The boards' competence and independence of the company's management is an important requirement. The boards must also be required to provide wide-ranging and transparent information to shareholders and other stakeholders about the companies' activities. The State as a shareholder expects that employees and local authorities are brought into the process at an early stage when there are questions of major restructuring of activities.

One important precondition for active ownership is that the objective of state ownership is clear. Companies operating commercial activities have to respect the requirement that profitability is fundamental. This is however not synonymous with a goal of short-term profit maximisation. The State will normally have a longer perspective in which the companies' roles are viewed in a broader context. Companies can be important actors in local society, represent key national centres of excellence, manage national natural resources, be cen-

tral in the development of future-oriented business or have crucial significance for an entire value-chain. Through their recruitment and employment policies, the companies play an important role in equal opportunities and integration. Through their trade and activities at home and abroad, the companies have a role in terms of issues concerning sustainable growth, the environment and human rights.

The companies' interactions with their surroundings are in a number of areas regulated by legislation. The Government wants the State as an owner to express its views on the companies' role in a broad sense, and to ensure that the companies are aware of the balance between the aim of profitability and various societal considerations etc. It is the companies' boards that have to make the actual decisions. The Government wants however to have clear goals for its ownership and communicate this through ongoing dialogue with the companies. This should be able to influence the companies' actions and attitudes in such matters, without interfering in individual decisions.

The State has a long-range perspective for its ownership. This also implies an active attitude towards the companies' growth and plans in terms of new investments and targeting of research and development. The State as an owner will assume an active attitude towards the companies' solidity and financing. This is done through conveying its expectations for returns and dividends from the companies, but also by seeing these in relation to the financing of future growth. Active ownership means that the State takes a position on significant plans for growth whether acquisitions or new investments that require expansion of the companies' equity are involved. Commercial activity implies financial risk and the State must also be prepared for the possibility of losses occurring in the companies it is involved in. If the State itself does not wish to contribute wholly or partially to further industrial growth of the enterprise, the option for financing this through a partnership with private investors will have to be considered. This will also get other investors to assess the risk of the projects.

It is important that companies with State shareholdings have the potential to exploit the value-creation potential they possess, by pursuing commercial opportunities both in Norway and abroad. By competing internationally, the companies can acquire increased competence and larger markets, which can in turn be an important factor in long-term, solid industrial growth and value-creation for the companies' activities in Norway.

The monitoring of results in relation to objectives is key to active ownership. The Government will arrange for broad follow-up in relation to the State's objectives. In addition to this, the requirement for expertise on the individual boards may change over time. The State will therefore require boards to perform self-assessments and will also make its own assessments. Where there is a lack of results or of expertise, the State will participate actively in the task of altering the composition of boards of directors.

7.2 An active ownership policy

7.2.1 The Government will exercise its ownership professionally

The main objective of state ownership is to contribute to the companies' long-term value creation and industrial growth. Only if the companies are competitive over the longer term can they maintain and enhance their role in the Norwegian economy and society. One key reason why the State wishes to remain an owner in many of the companies is their importance to Norway.

The Government will therefore conduct an active ownership policy that sets out expectations for the boards if directors to have high ambitions for the companies' growth. As a professional owner, the State will adopt a position on significant plans for growth whether concerning acquisitions or new investments that require expansion of the companies' equity. In an active ownership policy, the State will impose its requirement in the usual way for returns and dividends, to underpin the companies' long-term development and growth.

Companies that aim to be competitive over time must take into consideration factors that go beyond short-term profit maximisation. One aspect of this is that the companies must invest sufficiently in both research and development, and in increasing the skill level of the workforce. Over time, it will prove difficult for a company to restructure itself rapidly and extensively enough if it does not manage these processes satisfactorily. Companies with state ownership must also act responsibly in environmental terms. Equally, the company must promote diversity in its management at all levels, otherwise its ability to comprehend its surroundings will be weakened. High ethical standards everywhere will be necessary to maintain the company's values and legitimacy. Salaries and any other compensation schemes for the company's management must be justifiable, moderate and transparent. They must be competitive, but not

market-leading in a Norwegian context, so that the management's general authority is not weakened and the shareholders' assets are not reduced.

An active ownership policy means that the State sets out clear expectations for development in these areas, and that these are clearly communicated to the companies. This gives a significant extra dimension to the ordinary commercial requirements for returns and dividends and will underpin the requirement for long-term value creation and solid industrial growth.

The state-owned companies must be managed to achieve commercial market level returns and solid industrial growth over time. Within such a commercial framework, the companies are required to take account of the considerations discussed above and in Chapter 7.3. To the extent that the State as an owner instructs wholly owned State companies to make investments or engage in other activities that the board does not find commercially warranted, the Government will arrange for the company to be compensated through separate state budget appropriations.

7.2.2 The board's responsibilities and composition

The boards of directors are responsible for assessing the expectations which shareholders and others may have of the enterprise and of implementing the commercial initiatives the boards think are correct. The shareholders for their part must evaluate the boards' performances. Through its active ownership policy, the Government will therefore give substantial emphasis to a systematic evaluation of the boards' work and compose boards that can ensure the long-term value creation and other objectives, which the State has for its ownership.

The nomination of board members in listed companies is done through separate nomination committees, whereby the State, in conjunction with representatives of the other shareholders, seeks to achieve the best possible composition for the companies' governing bodies. Through its representatives on the nomination committees, the State will ensure that the boards represent a diversity of competence and have sufficient capacity for exercising their offices. In the case of elections to the boards, the State will also assess the measures they have taken and whether the strategic challenges facing the companies indicate a need for changes to the boards. Needless to say, the regulations concerning equal opportunities will be respected. The Government will involve itself actively and systematically in board nominations

and elections, in both wholly owned and part-owned companies.

7.2.3 Corporate governance and social responsibility

The Government sees the companies' social responsibility as an integrated part of the principles for corporate governance and executive management. Most companies justify their social responsibility initiatives as being both intrinsically valuable and commercially valid. The Government believes that commitment to social responsibility will promote sustainable commercial development and the companies' growth and competitiveness. The State as authority and owner imposes substantial requirements and expectations on the companies' social responsibility. The State as an owner is committed to good long-term value creation. The companies' management will have to make optimal deliberation of the various aspects in specific matters relating to social responsibility.

The State has previously set out the main principles for good corporate governance. These principles are directed at all state-owned companies, whether wholly or part owned. These are principles, which are in line with generally accepted principles for corporate governance, and they deal with significant matters such as equal treatment, transparency, independence, the composition of boards, the boards' role, etc. The Norwegian Code of Practice supplements them for Corporate Governance aimed at stock-exchange listed companies.

These principles describe the rules to be followed by, respectively, the executive management, the board and the owners, and some key factors to be taken into account in order for the interaction between company and owners to function properly.

However, these principles say little about the factors the owners may wish to concern themselves with through their ownership of the individual company. In this report, the Government has emphasised giving an account of the factors the State will attend to in its ownership policy. This is discussed in more detail in chapter 7.3.

7.2.4 Exercising shareholders rights as an instrument

One important question is the degree to which the minister should employ his authority to instruct the boards of wholly owned companies. A general premise is that the minister/ministry should not normally intervene in the board's day-to-day management of the company. The basis must be that

the Storting and the Government/minister sets out the primary goals, while it is the board's responsibility to implement them. When the State, through the general shareholders meeting/corporate assembly, instructs the board or reverses a board resolution, responsibility is lifted to the general meeting/corporate assembly.

A specific evaluation must be made of when and in what circumstances exercising shareholder rights is a suitable means for achieving political objectives. It is fully possible for matters pertaining to the public interest to be addressed in the ownership dialogue the State entertains with the company, as it does with other shareholders and other stakeholders generally. The State as a shareholder will thus be able to exert substantial influence, even if it is ultimately the board that is responsible for making the specific deliberations on the various inputs and interests. If the board does not follow up on what the State communicates through the ownership dialogue, the State as a shareholder must evaluate whether to raise this at the general meeting, if the matter is sufficiently important. There is however several factors to take account of in such an evaluation, including the State's reputation as a shareholder in a company with many shareholders, some of them foreign.

The State has a number of instruments suitable for achieving political objectives. This applies especially in respect of achieving specific environmental policy aims, R&D objectives, etc. The State also has a range of instruments suitable for stimulating and contributing to a thriving business climate (legislation and regulations, research funds, schemes organised through Innovation Norway, Enova and SIVA (the Industrial Development Corporation of Norway) and others). In terms of society, governance occurs largely through regulatory measures. The use of corporate governance will thus be assessed on the basis of the specific circumstances and available alternatives.

7.3 Important sector-independent considerations that companies must take into account

The Government expects that all companies assume their corporate social responsibility, regardless of whether they are owned by private or public actors.

The preparatory committee on state ownership showed that most companies justify their corporate social responsibility initiatives as being both intrinsically valuable and commercially valid.



Figure 7.2 Entra Eiendom combines commerce with active corporate social responsibility. The purchase and development of the National Library of Norway (formerly the University Library) ensured timely safeguarding and storage of old and new archives. The building complex on Solli Plass, Oslo has been completely refurbished and extended to make room for an increasingly exhaustive volume of archive material.

Photo: Entra Eiendom AS

The committee also set out that state-owned companies should be leading on corporate social responsibility. The committee pointed out that the State's legitimacy may be weakened, for example, as a legislator and in foreign policy affairs, if it does not, in its ownership role, meet high standards in this area. The Government supports this view and, through the quarterly meetings that the companies have with the State's ownership administration, it will follow up on matters that underpin the companies' long-term value creation.

Demonstrating social responsibility means that the companies interact openly with everyone who has a legitimate interest connected with the enterprise. Safeguarding the company's interest is the prime task. This means operating profitably within the established framework.

Social responsibility is about running the business so that it in all important aspects makes a positive contribution to society. Such an attitude requires that companies assume broad responsibilities, notably in relation to environmental impacts, ethical conduct and so on.

Active social responsibility means that finances and ethics are combined in all aspects of the enterprise from the selection of partners, to investments in, for example, staff working conditions locally and globally. Socially responsible management

means that the company strives to act correctly towards all of its stakeholders. Social responsibility is not, and should not be seen as, disconnected from the company's commercial strategy and business development. It is about integrating such concerns into the process of developing a strategy and of running the business.

The social responsibility of companies is a key theme in corporate governance in most modern economies and is recognised as important in safeguarding companies' long-term growth potential. A company's reputation is increasingly affected by its ability to maintain a high ethical and environmental standard and to demonstrate social responsibility. A loss of reputation has thus become a greater financial risk factor. The emphasis of companies' social responsibility in today's more globalized economy contributes in a positive sense to a trend in society that supports a sustainable environment and long-term development interests. In particular, large companies with international activities have a major independent impact in this regard.

Internationally, the term «Corporate Social Responsibility» (CSR) is applied to contexts involving business and industry's self-regulation in areas linked to broader social interests. In this sense, it relates to companies setting goals or defining standards for their own commercial activities that adhere to or even exceed the requirements that the authorities impose in various areas.

Companies naturally see their own social responsibilities in the light of the services and products they supply and the environment they operate in. The actual substance of social responsibility evolves over time and varies between different sectors. The aim of being a leader in the commitment to corporate social responsibility means that companies have to actively adhere to and get involved in developing sound business practices in areas that are relevant to the activities.

One absolutely decisive precondition for companies being capable of showing positive consideration towards the environment, society, employees and owners is that they are profitable. It is therefore important for companies to continuously adapt to changes in their surroundings and develop a sound and constructive dialogue with owners, employees, local society, the authorities, and professional and industrial bodies.

Good corporate governance is based on a clear division of responsibilities and roles as well as a fundamental trust in the relationships between the roles. The Norwegian Code of Practice for Corporate Governance and the OECD's Guidelines for the Corporate Governance of state-owned enter-

prises set out that the company's board should frame ethical guidelines for the enterprise. The Government expects that all companies with state ownership that have not already done so, should formulate their core values and ethical guidelines. These should be implemented actively within the companies.

Companies must engage in open dialogue with their surroundings on finances, corporate social responsibility and environmental issues. Large companies with international activities should consider using the reporting standards of the Global Reporting Initiative¹. This standard has broad support, including from UNEP, the UN's environmental programme.

The following gives a more precise account of what factors the Government will be concerned with in its ownership dialogue with companies. These are factors that the Government expects the boards to include in their evaluations and which are intended to underpin high long-term returns and solid industrial growth.

7.3.1 Restructuring

The Government expects that companies with activities in Norway engage responsibly and for the long-term in readjustment processes. Restructuring in vulnerable local communities with little alternative employment is especially demanding. In order to create confidence in such demanding



Figure 7.3 Norsk Hydro's restructuring of the Glomfjord community in the 1990s was essential. Today, this industrial community has more jobs than when reduction in the workforce first started. Norway's current solar energy business originated in the Glomfjord community in the 1990s.

Photo: Rolf Riise, © Yara International ASA

change processes, it is important that the need for restructuring is accompanied by a high level of transparency, and for the owners, employees and local community to be brought into constructive dialogue at an early stage; in respect of the actual need, the time frame and whatever measures may be appropriate. When it is clear that restructuring is essential, it is important for all parties to try to act as constructively as possible to an orderly process and investigate the options for establishing alternative activities. The State as an owner is a participant in these processes on a par with other stakeholders and responsible owners. The Government will be committed to new profitable investments and consequently guarantee jobs for the future in Norway. Companies where the State is a dominant owner are expected in particular to conduct themselves as responsible actors and active partners in restructuring processes in vulnerable local communities.

The State also has a commercial and regional policy role in restructuring operations. In a community based on a sole industry, restructuring programmes should be used to promote development rather than downsizing. In the first instance, the challenges of restructuring should be resolved within the frameworks of the existing body of instruments, including Innovation Norway, labour market initiatives, county councils and municipalities. There is also the possibility for extraordinary measures to be taken by the State in special cases in accordance with precise criteria; see Report to the Storting no. 21 (2005 – 2006). Please also note in this context the Government's measures in the case of business closures.

7.3.2 Research, development and competency building

The Government wants the industries to be ambitious in its research and development (R&D) initiatives, and has the aim for companies with State shareholdings to contribute to increased private participation in R&D in Norway.

The competitiveness of the industry depends on companies being able to employ and develop new knowledge and new technological and organisational solutions. A more knowledge-based commercial environment is conditional for increased research activity in business, supported by a sound system of policy instruments and a good infrastructure of universities, colleges and research institutes.

The Research Council of Norway, through a series of tables in its 2005 Report on Science and

¹ www.globalreporting.org



Figure 7.4 Commercially oriented research and development is important. EWOS Innovation AS develops constantly improved starter feed for anadromous fish in terms of technical quality and biological yield. Aqvaforsk AS is an important R&D actor in the early value-chain. EWOS Innovation’s R&D station in Dirdal (see photo) is a world-leader.

Photo: Embryo: Aqvaforsk. Others: Ewos AS

Technology Indicators, illustrates that enterprises that target R&D are generally more profitable than others. This is true of operating revenues per employee, operating profit as a share of operating revenues, total capital and equity. Studies made by the Federation of Norwegian Manufacturing Industries also show that companies that target R&D are more profitable and exhibit stronger

growth in turnover and exports than companies in the same sector that is not. Other reports serve to nuance this view. In 2005, the US company Booz Allen Hamilton conducted a survey of 1,000 companies which concluded that it was difficult to find a consistent connection between R&D activity and business success.

The various findings above illustrate that a company’s overall success, whether measured as growth, profitability or share price trend, in addition to its own research activities, depends on a number of factors. The business strategy, areas of competence and other strengths and weaknesses make up a whole, which, along with competition from other companies, contribute to the final result. Investments in R&D will therefore vary from company to company, depending on factors such as the sector, the company’s lifecycle and strategy, and should not be seen as separate from the company’s other areas of competence.

Norwegian companies with a large proportion of public ownership are among the leaders in R&D

Table 7.2 Norwegian companies’ R&D expenditure in an international perspective. 2005

Norwegian ranking	Overall ranking	Company
1	410	Statoil
2	563	Norsk Hydro
3	566	Telenor
4	694	Orkla

Kilde: Source: Industrial R&D Investment Scoreboard 2006, European Commission (DG RTD and JRC):

Box 7.2 R&D activities have provided a better basis for value creation in Cermaq

The Storting has established the premise that Cermaq shall play an active role in R&D in the marine sector and fish farming.

Competence in the EWOS Innovation (EWOS) subsidiary is key in the implementation of R&D activities in Cermaq. EWOS is headquartered in Dirdal in Rogaland county where a fully integrated pilot line through the entire salmon production value chain has been established. Together with R&D stations in Lønningdal in Hordaland county and Puerto Mont in Chile, this forms the group's R&D platform. EWOS assists both the Cermaq group and external customers with specialist advice on feed, nutrition, growth and production optimisation. One of EWOS' most significant target areas is the development of feed that will increasingly permit marine raw materials to be replaced by vegetable alternatives. This is important to achieve continued sustainable development within a growing salmon-farming industry, since overall access to marine oils and fishmeal is limited. EWOS and EWOS Innovation have also developed various types of functional feed to assist in making the health of farmed fish more robust throughout their lifecycle, from hatching to slaughter. Through part-ownership of Hordafôr, Cermaq also engages in the collection and processing of slaughter waste from salmon and trout slaughterhouses into oil and protein concentrates. In this way, slaughter waste is processed with the lowest possible environmental impact.

Sources: Cermaq and the Ministry of Trade and Industry

in Norway. The three groups with the highest total R&D costs in the 2005 accounting year all had considerable public ownership (see table 7.2).

In a new ranking by the European Commission of the world's companies by research activity, there are four Norwegian companies among the thousand largest, three of which have a significant proportion of public ownership.

The development of new knowledge proceeds faster and gives better returns when the individual

researcher is able to build on what others have done previously. Both the OECD's growth studies and general economic growth theory point to R&D as an important source of economic growth and welfare. Research undertaken for a specific purpose can also be applied for other purposes, and often in other businesses. But this also means that society's benefit from research can be greater than the return the individual company gets from its research. This can result in individual companies settling on an R&D level that is too low to be socio-economically profitable.

Norwegian research policy therefore assists in more and better research and development being undertaken in companies. The Government achieves this through direct support for R&D, notably through State aid schemes under the Research Council of Norway and Innovation Norway, and through tax incentives for research made through the SkatteFUNN scheme. The Government also provides companies with access to usable, advanced R&D skills through its financing of the country's research institutes and, through the size and organisation of the education system, with access to a highly educated and appropriately qualified work force. Through its research policy, the Government thus contributes to improved knowledge acquisition, access and dissemination.

The Government expects that commercial companies with State shareholdings operate their businesses based on what best serves the company and its shareholders in a long-term perspective. Enterprises have good access to the comprehensive instruments which research policy has already generated. The Government is very ambitious for the business and industry's R&D efforts, and expects companies to pursue a conscious approach to their own R&D activities. The boards should work actively and ambitiously with research and innovation in order to grow the business and to facilitate commercialisation of research internally within the company and through seeding. Companies should also pursue a conscious approach to communicating their own research results and commercialising the results from other research environments and companies through partnerships.

The Government is committed to companies taking a positive attitude to investing sufficiently in their employees' skills development. Companies should organise trainee schemes and apprenticeships as an important recruitment basis.

7.3.3 The environment

Long-term value creation calls for effective use of resources and the minimisation of negative impacts on the external environment. This means that companies' work on environmental issues must proceed systematically and extend to the enterprise's entire value-chain. The company must work actively to raise awareness of and involve the organisation and the individual in environmental issues. Customers, partners and suppliers must cooperate on environmental and safety issues to arrive at the most environmentally friendly solu-

tions. Product development, production, distribution and use of the company's products must be adapted to long-term, responsible, social development with the least possible environmental impact.

Responsibility for the goals, the performance and the evaluation of environmental work must be clearly specified. Systems, monitoring and reporting routines must be constantly developed to ensure that the work is carried out satisfactorily. The Government wants state-owned companies to be at the forefront in terms of environmental action within their sectors.



Figure 7.5 Green revolution in Africa: Yara has been in Africa for 25 years. Yara attaches great importance to being able to guide food producers in Africa through a complete technical programme, in terms of soil preparation, appropriate agricultural techniques, the right use of mineral fertilisers and plant materials. The aim is to reduce poverty, increase food security and reduce soil erosion. The environmental effects are positive. Yara has taken up the UN Secretary General's challenge in connection with the UN Millennium Development Goals programme and displays active social responsibility. Yara works actively in partnership with NORAD in Tanzania.

Photo: © Yara International

Box 7.3 Statoil ASA – a leader in sustainable development and social responsibility

One of Statoil's core values is to contribute to sustainable development and social responsibility. Statoil aims for the company's active social responsibility with respect for health, the environment and human rights to be visible and to create positive spin-off effects wherever the company operates.

A wider public has duly noted Statoil's work in this direction. In 2004, 2005 and 2006 the Dow Jones Sustainability World Index ranked it as the world's most sustainable company

within the oil and gas sector. In 2006, only 11 of 81 companies in the oil and gas sector made it onto the DJSI World members list. These gain the right to use the Dow Jones sustainability logo.

Statoil ranks the highest in the main Finance group as well as in the Human Capital Development and Social Development sub-groups.

Source: Ministry of Petroleum and Energy

7.3.4 Health, safety and the working environment

It is important for the board to follow up on work on health, safety and the working environment, and that this is done in a systematic and satisfactory manner. The principle of preventive action is important.

An increasing number of employees of companies with State shareholdings are employed outside Norway. The companies' HSE work must also cover their international activities.

The best traditions for cooperating with employees and their organisation must be in place when the company operates in other countries. This will make a positive contribution to the implementation of international employment standards, organisational participation and good relations between employers and employees in the companies' operations in other countries.

The Government has established the premise that companies with State shareholdings shall be at the forefront in HSE work.

7.3.5 Ethics

Ethics are becoming increasingly significant in today's industries. It has become customary to employ terms such as ethical competition to underline the fact that finance and ethics are not contradictory, but rather that ethics have an increasingly important role to play in companies' results and competitiveness. Although it is not easy to prove that ethical management influences profitability, there is widespread recognition that breaching ethical rules in business represents an increasingly substantial risk factor. This is, in part, con-

nected with the globalisation of business and the development of information and communications technologies that make it more difficult to conceal unethical conduct in business.

Awareness of business ethics serves to define a company's business culture.

Companies naturally see their own responsibilities in the light of the service and products they supply and the commercial environment they operate in. The substance of those responsibilities evolves over time and varies between different sectors. The aim of being a leader in the work of ethics and social responsibility means that companies have to actively adhere to and become involved in developing sound business practices in areas that are relevant to the business.

Some aspects of ethics, however, have more general validity:

Fundamental human rights are a universal requirement. These are laid down in the UN's declaration of human rights and include civil, political, economic, social and cultural rights. In working life, breaches of human rights can include discrimination based on gender, religion, race, national or ethnic origin, cultural background, social grouping, sexual preference, disability, family status, age or political opinions.

Companies' activities must be carried out in accordance with fundamental human rights, and business partners and suppliers must be required to do the same.

Through responsible conduct and making demands of suppliers and other business partners, the State wants companies to contribute to increased prosperity and a positive trend in employment standards and human rights in the countries they operate in.

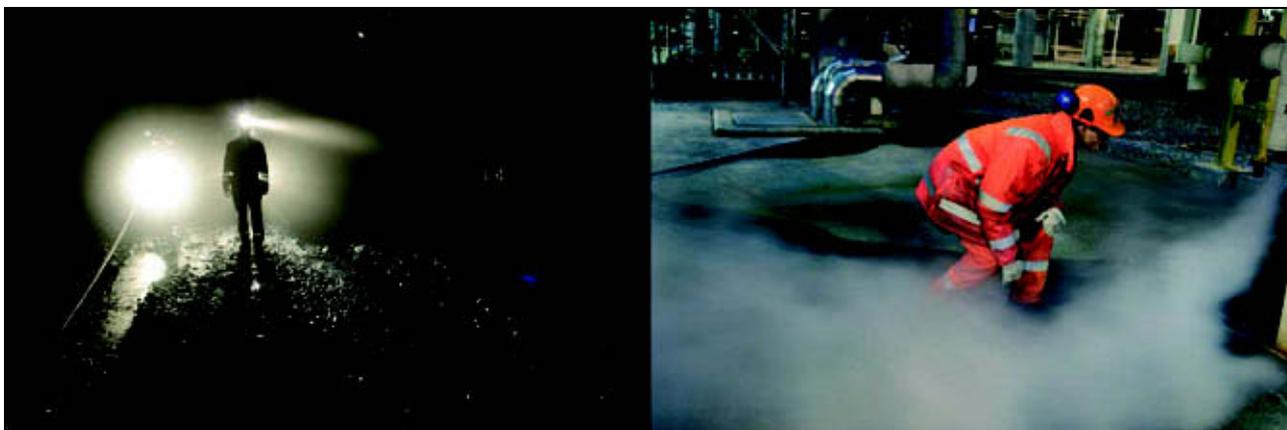


Figure 7.6 Proactive HSE work is especially important within the energy sector. The photos show operations in the Svea mine on Svalbard and at Kårstø near Stavanger.

Photo: Left: Store Norsk Spitsbergen Kulkompani. Right: Scanpix

The State has established ethical guidelines for the administration of the Government Pension Fund – Global. These ethical guidelines have the following foundation:

Financial assets must be managed so as to provide good returns in the long term, and this is dependent on sustainable development in economic, environmental and social terms. Using the Fund's ownership interests to promote such sustainable development shall strengthen the financial interests of the Fund. The fund should not make investments that constitute an unacceptable risk that the Fund may contribute to unethical acts or omissions, such as violations of fundamental humanitarian principles, serious violations of human rights, gross corruption or severe environmental damages. Ethical guidelines have also been established for the administration of the Government Pension Fund – Norway.

Companies covered by this report should, when formulating ethical guidelines for activities, evaluate the factors on which the Pension Fund's ethical guidelines are based. Like the Pension Fund's guidelines, the companies' ethical guidelines should adhere to the UN's Global Compact and the OECD Guidelines for Multinational Enterprises. The guidelines should also adhere to the OECD Guidelines on Corporate Governance of state-owned Enterprises.

7.3.6 Combating corruption

Corruption is a major societal problem in many countries. Corruption is the theft of political, social and economic benefits from the citizens and consumers. Corruption causes poverty, social marginalisation and arbitrary discrimination. Corruption does not only result in unjust distribution; it also gives the wrong incentives to economic actors and hence leads to an unhealthy allocation of resources.

The preamble to the Council of Europe's Civil Law Convention on Corruption of 1999 states that

«corruption threatens the rule of law, democracy and human rights, undermines good governance, fairness and social justice, distorts competition, hinders economic development and endangers the stability of democratic institutions and the moral foundations of society».

Transparency International defines corruption as follows:

«Corruption is the misuse of entrusted power for private gain.»

Stringent requirements for openness and transparency are effective instruments against corruption.

In Norway, the Public Administration Act and the Open Files Act grant concerned parties and the general public the right to inspect the decisions made by public administration authorities. In business too, increased openness will be capable of preventing incorrect and ethically questionable decisions. Companies should therefore be open about dilemmas relating to corruption, conflicts of interest and legal incapacity. Companies that are negligent in this area risk attracting public scrutiny on the basis of alleged illegal or dishonest commercial conduct. Regardless of the legality of the case, such attention can damage the company's reputation and cause substantial financial loss.

In some parts of the world there is limited transparency concerning revenues deriving from the extraction of oil, gas and mining activities. Increased transparency in these resource-rich countries will serve to counteract corruption and thus allow for better governance and supervision, as well as economic growth and prosperity. This will provide a better investment climate. Companies with oil, gas and mining activities should therefore sign up to the Extractive Industries Transparency Initiative².

7.3.7 Gender equality

Open and genuine competition for positions in society promotes both justice and economic efficiency. Women currently comprise around half of the active labour force. Norway is at the very forefront in equal opportunities in the labour market, but in terms of management positions in particular, men are still in a substantial majority. It is a wasteful and poor administration of society's resources if the skills and capacity which women can offer companies and society are not better used.

The Government has seen to it that the regulations on the need for representation of both sexes on the boards of public limited companies came into force on 1 January 2006; see the Public Limited Companies Act, section 6 – 11a. For companies founded and registered before the Act came into force, a transition period of two years, to 1 January 2008, applies. However, for companies wholly owned by the State and their subsidiaries the regulations came into force on 1 January 2004, with a transition period of two years to 1 January 2006.

² www.eitransparency.org

In July 2002, the revised Gender Equality Act entered into force. Among other things, the Act makes more stringent demands on employers working actively and justifying the measures they employ in the enterprise's equal opportunities commitment. The preliminaries specify that an employer has a duty to be proactive. Section 1 a, para. 3 of the Act directs public and private enterprises, which by law are obliged to prepare an annual report, to give an account of the gender equality situation in the business.

The duty to act and report obliges the employer to work actively for equality in the enterprise. The purpose of the provision is to increase awareness of the importance of equal opportunities measures. An equivalent provision is included in Section 3–3 of the Accounting Act. The reporting must describe the actual status of gender equality in the enterprise and any planned or implemented measures.

The duty to act must contribute to targeted and planned work for equality between the sexes. The

duty to report is based on a systematic description of relevant conditions for evaluating equality within the enterprise.

The recruitment of women to management positions in the companies is a task for the board and administration, pursuant to the distribution of roles as per the Limited Liability Companies Act. A specific development and selection policy must be operated at every level of the companies' activities so that there are more women to choose from when executive positions are to be filled. Conscious initiatives at lower levels of the organisation are an important management responsibility. Within the administration of ownership, we will follow up on the boards' activities in this field.

7.3.8 Integration and career opportunities for other groups

The Government is committed to Norwegian companies being proactive in terms of the recruitment



Figure 7.7 Statnett and Baneservice are examples of companies which manage infrastructure which is critical to society. The photos show the laying of submarine cables, Statnett's national terminal and the transformer station at Smestad, and maintenance workers in action at Baneservice. Baneservice maintains infrastructure critical to society

Photo: Photos top and bottom left: Trond Isaksen. Photo bottom right: Baneservice

of people from minorities. A number of companies with State shareholdings have activities in many countries. Companies should therefore also emphasise cultural awareness in their recruitment policies.

Companies should participate actively in attitude-changing measures, which ensure that immigrants with non-Western backgrounds gain access and opportunities in line with their qualifications.

The Government expects similarly that Norwegian companies pursue an active and specific recruitment policy to provide qualified senior people and people with reduced functional abilities with access to working life.

7.3.9 Civil protection

The companies' safety and contingency measures are managed under the same principles, regardless of ownership. In a similar way to other private enterprises, companies with State shareholdings are obliged to protect their own operations, employees and surrounding environment against accidents. The guidelines for this are prepared and followed up by the specialist authorities within the specific sectors.

It is important to have a good safety culture that takes account of information, staff and operational safety. This also applies to companies in which the State is a shareowner. Norwegian Official Report NOU 2006:6 When safety is of paramount importance, describes the principles for a good safety culture in enterprises with responsibility for critical infrastructure and critical social provisions. The principles provide a sound basis for the companies' commitment to safety and emergency preparedness, regardless of whether they are designated as critical to society, are subject to legally binding requirements or have entered into contingency agreements with the authorities.

7.4 Executive salaries and incentive schemes

The Government will ensure moderation in executive salaries in companies where the State is a significant owner. The determination of effective remuneration schemes is of great importance for the companies themselves and for society as a whole. Executive management is the most visible part of the enterprise and accordingly the part most identified with it, so it is especially important for executive salaries to appear as reasonable.

The previous Stoltenberg Government introduced guidelines for managers' terms of employ-

ment in wholly owned companies. The guidelines state that «... executive salaries in state-owned companies must be competitive, but they should not be market-leading within their sectors.» That is also this Government's fundamental position. The guidelines for executives' terms of employment in wholly state-owned enterprises are included as an annex to the Ministry of Trade and Industry's annual budget proposal. The guidelines cover salary and pensions agreements and other matters. A pension age lower than 65 should lead to a reduction in the level of pension. The total pension basis should not exceed 12 G where the enterprise is wholly or partially financed by the state budget. Pensions disbursements shall be regulated in line with Norwegian National Insurance pensions and not based on the specific position.

The growth in executive salaries has been higher than is desirable and has shown that there is a need for measures that give shareholders greater influence over executive remuneration policies. The Government has therefore proposed amendments to the Limited Liability Companies Act and others concerning the setting of executive salaries; see Bill to the Storting no. 55 (2005 – 2006). The Bill means that the board must prepare a statement on the setting of salaries and other remuneration to executives and that this statement must be discussed at the general meeting. The statement must contain an account of the executive salary policy pursued over the preceding financial year, as well as guidelines for setting salaries and other remuneration for the coming financial year. An advisory vote shall be conducted for that part of the statement that relates to guidelines for the setting of executive salaries for the coming financial year. The Bill implies that the general meeting's approval will be required for those parts of the statement relating to guidelines for remuneration in shares or based on share values.

The proposal for administrative regulations for executive salaries will give shareholders in public limited companies better insight into, and influence over the company's executive salary policy, especially concerning the use of supplementary benefits such as bonuses, options, pensions schemes, early retirement contracts and similar.

The Government's proposal for an amendment to the Public Limited Companies Act means increased influence for the general meeting by the fact that the statement must be voted on. It is however important that the division of roles between the companies' governing bodies as prescribed by the Limited Liability Companies Act is maintained. It will continue to be the board of the individual

company that is responsible for deciding on the specific salary and incentive schemes. It is also the board's assessment as to how far the individual elements of any incentive scheme form a necessary part of a total compensation package to ensure competitive remuneration of executives and employees in a company. The State as a shareholder will assess how the board manages this responsibility as part of its overall assessment of the board's work in the individual company.

No owners or companies are well served by internal or external unease linked to unreasonable remuneration or lack of openness about it. Share options in particular have caused unwanted effects, by having produced excessive payments in accordance with changes in circumstances that are outside the influence of management. Research in share-based remuneration provides little support for share-options schemes being necessary in the type of company in which the State is an owner. This Government sees a need for more moderation and objectivity in the management of companies. Therefore, the State will vote against implementing new agreements that involve share-options schemes in companies covered by this report.

Companies with State shareholdings should however be able to employ other incentive schemes when setting executive salaries. But any incentive schemes must be designed so as to ensure moderation in the trend in executives' terms of remuneration. In addition, there must be a reasonable ceiling to the value of the programme. To the extent that variable salaries are used, the payment terms should, as far as possible, be linked to circumstances that the person receiving the remuneration is capable of influencing. External factors should be avoided to the greatest possible extent.

In order to guarantee its impartiality, the board will not be included in incentive schemes.

In conjunction with other involved ministries, the Ministry of Trade and Industry will prepare general guidelines before the general meetings in 2007. The guidelines will relate to the State's voting in matters concerning incentive schemes, share and share-price related instruments and pension and early retirement schemes.

7.5 The State's purpose in ownership and the importance of explicit objectives

The purpose of the ownership in the commercial companies is to ensure that the State's invested



Figure 7.8 Graminor, AS of which the State, through the Ministry of Agriculture and Food, owns 34 %, manages and develops a comprehensive range of plant-breeding materials. The company has recently purchased Bjørke Experimental Farm (photo) which is also the head office for the enterprise. A new hybrid breeding house has been constructed at Bjørke in connection with the project to cultivate improved and disease-free plants adapted to a Northern climate. Graminor has enjoyed great success with the new EDEL cereal variety (a six-row barley) which has produced exceedingly good yields.

Photo: Graminor

capital achieves the highest possible return over time and to see that the companies are able to show solid industrial growth. State-owned companies are to be run in the same way and within the same framework as well-run private companies. In addition, the companies must be among the leaders in the commitment to assuming corporate social responsibility.

A further clarification of the purpose of ownership is important, because it can help ownership to be better and more appropriately managed. This will make it easier to formulate expectations and evaluate the companies' performances. Companies will also find it easier to define their primary tasks and know what the owners' influence requires.

If the State is precise in regard of its ownership, it will subsequently be easier to assess whether capital invested has been efficiently employed. Unclear objectives can also lead the capital markets to believe that the State has different objectives than it actually has, which in turn can negatively affect the State's shareholding.

The preparatory committee on state ownership has made a recommendation of how the State can categorise its ownership depending on the objec-

tives of the ownership. Please see chapter 5.2.1 for a more detailed description of this.

The Government shares the opinion that a better clarification of the objectives of state ownership will provide a foundation for more active and value-adding ownership. Categorisation of ownership by objective is a useful tool in this context. In the review of companies in chapter 8, the Government has formulated the State's objective for its ownership of each individual company.

The Government will ensure strong public and national ownership for achieving important political objectives. Ownership within the transport, health and culture sectors serves to further sector-policy objectives. Ownership of companies such as Norsk Hydro, Statoil and Statkraft is important for the development of natural resources and for retaining head office functions in order to develop centres of excellence in Norway. The State will be a long-term, stable and good owner. In many instances where companies have not been assigned specific social obligations it has been appropriate to bring in private expertise and capital. As a step in the opening up to competition and deregulation of the markets, the State has attracted other investors into a number of companies where the State previously was the only owner.

The size of the shareholding the State wishes to have in the largest companies must be seen in the light of the significance the companies have for the Norwegian economy and for value creation.

7.5.1 State ownership ensures national head office activities of important companies

The Government wants to ensure national head office activities of important companies and of key functions in society. A shareholding of more than one-third of a company is necessary to ensure this.

A diversity of ownership, as there is in Norway, is a strength for providing access to capital and skills. There is a need for interplay of private and public capital and national and foreign capital in order to develop Norwegian companies.

A dynamic business world is characterised by interplay between investors who have a short-term perspective on making profits and those with a longer term perspective on developing companies. This often produces a fruitful tension between long-term industrial development and the need to achieve earnings in the shorter term.

State ownership contributes to a greater degree of long-term engagement and hence to greater stability on the part of the owners. This ensures

Box 7.4 Statkraft is developing energy production based on tidal power

Statkraft is working on developing a concept based on a floating steel structure that produces electrical power from four large turbines driven by tidal streams. The fact that the tidal power installation floats in the water means there are no major permanent encroachments on the seabed and the project has low environmental impacts. The entire plant and its anchors are simple to relocate or remove. Tidal streams are predictable and the high density of water, nearly 1,000 times that of air, means there is a lot of energy to extract from tidal streams even though their speed is low. It is anticipated that it will be possible to produce power from speeds of around 0.5 m/s upwards. One of the tidal-power projects Statkraft is working on is at Kvalsundet north of Tromsø. This sound has strong currents and the proximity to Tromsø is useful during the testing phase.

Source: Statkraft

national ownership of the country's largest companies. The importance of long-term engagement, stability and ownership in some of the largest Norwegian industrial groups means that the State, through its direct ownership, has played, and continues to play, an important economic policy role in the country.

At the head office, at the company's board and corporate assemblies, decisions are made with considerable consequences for the company's business development and, when it comes to major companies, also for other parts of the business world. The company's shareholders can participate directly in such decision-making processes through the general meeting. Normally, strategically important decisions will be made by the company's board and corporate assembly based on preliminary preparations by company's head office. The shareholders exercise influence over these decisions primarily through the composition of the companies' governing bodies.

It is important for the value creation to ensure national head office activities in Norway. This is therefore a key political issue in Norway as well as many other countries. Having a Norwegian head

office in companies of strategic importance also helps to guarantee and develop specialised industrial and financial expertise and general managerial competence. The Government will therefore ensure ownership in Norway of key companies in the knowledge society, and would like to see that these companies continue to develop their activities in Norway.

Companies' demand for expertise is a driving force in the development of domestic research and development institutions, while such institutions can also make a high-level contribution to the growth of internationally competitive companies. Thus there are good reasons for assuming that the location of head offices is important for national centres of excellence. Surveys made over a number of years indicate that Statoil and Norsk Hydro are highly attractive prospective workplaces among university and college students.

The interaction between the head offices and various national institutions within a sector is very important for commercial development. The head office will normally have considerable strategic expertise in order to exercise its controlling function. Nationally situated decision-making and managerial expertise can be very significant for the supply industry and consequently for national value-creation and employment. Through its ownership, the State will contribute to head offices in sectors of strategic national interest being retained in Norway.

In this context, the Government is also committed to the development and growth in Norway of businesses that are key to the interaction with R&D environments. This is important in order to maintain and strengthen important business and industry clusters and value chains. Where this can be done within the required framework of commercial returns, the Government aims for companies to contribute to increased processing of goods in Norway. This promotes greater value creation and employment and, in turn, will prove highly significant in many local communities.

The Norwegian oil industry has grown through the interactions of various industry actors; notably those between the supply industry and the oil companies have been critical for the development of a competitive sector. Statoil and Norsk Hydro have been responsible for major and complex installations on the Norwegian Continental Shelf. This has made them demanding customers of the Norwegian supply industry, which has had to develop technologically demanding products

and services, which are now in demand on the world market.

7.5.2 State ownership ensures control of and revenue from our natural resources

The Government will ensure the right of disposal over the country's major natural resources, especially in the energy sector. Acts, legal provisions, etc regulate the control over the country's natural resources.

State ownership of Statkraft and Statskog among others provides instruments for exploiting these resources for the common good.

The objective of having revenues from natural resources benefit the whole population, achieved through the tax system. The State's ownership of energy companies is however an important additional component in the Government's policy of revenues from natural resources benefiting the common good to the greatest extent possible. Companies such as Norsk Hydro and Statoil, as a result of rising energy prices, have experienced substantial increases in value and returns over recent years. The same applies to Statkraft. Comprehensive state ownership within the energy sector has thus given society an extra revenue source through the recent high level of dividends. This shows that State shareholdings can offer an important supplement to the tax system providing revenues for the common good.

7.5.3 State ownership contributes to the safety of society and socially important infrastructure

Ensuring a sound national infrastructure is an important public task. Public ownership permits a socio-economically profitable construction of an infrastructure which is naturally monopolistic, i.e. one company can produce more effectively within a geographically restricted area than several companies. Through state ownership, the Government seeks to ensure that Norway has a well-developed infrastructure in terms of primary roads, railways, airports and the central power grid. The local authorities also take care of important infrastructure such as grids for power distribution, water supply and sewage, harbours and local roads.

The Government aims to increase transport initiatives in order to ensure increased traffic safety, extended public transport and an efficient transport system for the whole country. In terms of electricity provision, state ownership is necessary so

Box 7.5 ECC contributes to increased maritime safety

Through the Ministry of Trade and Industry, the Norwegian State owns 100 per cent of the shares in Electronic Chart Centre AS (ECC). This company offers services, which contribute to increased safety at sea both internationally and along the Norwegian coast. ECC operates a nautical chart service based on electronic charts for 30 countries in all. With the assistance of ECC's services, shipping and the Norwegian pilot service have access at all times to the most updated nautical charts electronically (24 hours a day). This represents a major advance over the use of paper charts. The nautical charts are updated daily and, through the use of authorised electronic charts, users' own charts are updated immediately from ECC. The service supplied by ECC is a factor in increasing the quality of the charts which ships use when sailing along the coast and it thus contributes to increased safety at sea.

Sources: ECC and the Ministry of Trade and Industry

Box 7.6 State-owned companies target biotechnology

A number of companies in which the State has shareholdings have a high level of expertise in biotechnology. Veterinærmedisinsk Oppdragssenter (VESO) and the National Veterinary Institute have unique biotechnology research and development expertise, in terms of both domestic animals and farmed salmon and trout. A number of experiments are in progress: VESO's Trondheim division is key to the work of combating *Gyrodactylus Salaris* and treating salmon watercourses using new means and methods. Previously rotenone was the only treatment. New methods are now being tested and developed, such as treatment using aluminium.

Graminor AS will be looking after the commercial development of plant varieties and the propagation of new plant materials into new varieties with a view to commercial production and exploitation in Norway and the rest of the Nordic Region. Graminor receives royalties from the industry for this work. The State also contributes with R&D funding. Through the Ministry of Agriculture and Food, the State owns 34 per cent of Graminor. Graminor has acquired the Bjørke Experimental Farm at Hamar and here the company has constructed a new breeding house for various plant hybridisation experiments. Bjørke has become a new key centre of excellence for plant technology. The region around Mjøsa has also been appointed a key target area when it comes to bio agricultural research.

Source: Ministry of Trade and Industry

that a central grid is extended in the interests of socio-economic profit.

7.5.4 State institutions ensure beneficial solutions for the common good in the field of culture

The public sector has a special responsibility for ensuring that society enjoys a rich and diverse cultural provision within areas such as theatre, opera, etc. Ownership of NRK, the Norwegian broadcasting service, contributes to cultural diversity. The State will use its ownership in the culture sector to provide for society's need for quality, diversity and innovation.

7.5.5 State ownership ensures good health services

The Government wants the population to be provided with a good and equitable specialist health service. State ownership of regional health care companies and the corporate organisation of the specialist health service allows for coherent man-

agement and beneficial use of resources to protect and develop a high-quality service for the whole population.

7.5.6 Research and development

The Government will offensively target research and development. To achieve increased emphasis on research in business and industry, a sound business policy and generally conducive framework conditions are important, as well as publicly

financed research programmes capable of stimulating companies to undertake further R&D activity.

In wholly owned companies, the potential for establishing special research initiatives will be in place. The part-owned Simula Research Laboratory AS is an example of a company which has the aim of performing fundamental research at a high international level.

7.6 Transparency concerning ownership

7.6.1 A new publication summarising the objectives of ownership, guidelines and expectations

The Government will be taking an initiative by having the Ministry of Trade and Industry produce a new annual document to provide a public statement on the government's ownership policy as it is communicated to the Storting, and in conformance with guidelines laid down by the Storting.

The document will review the primary objectives of state ownership and the division of roles within the State's administration, and between shareholders and the companies' governing bodies. Expectations regarding capital returns and dividends will be formulated. For sector policy companies and companies that receive State aid, a requirement for efficient operation will be laid out.

The State will give an account in the document of which factors it wishes to emphasise in its ongoing ownership administration and, on this basis, of what expectations it has of the companies' boards.

To support the objective of sound long-term development, the ownership ministries will undertake broad follow-up to ascertain that the factors supporting this development are being taken care of. This applies to R&D, ethics, the environment, equal opportunities, discrimination, restructuring, etc. The document will also include the guidelines in force that are relevant to the State's exercise of its ownership.

This publication has three main target groups: wholly and partially owned companies, the general public and the capital markets. The document will be sent to the companies and followed up in meetings. The document will not replace information, assessments, proposals etc. which the Government will put before the Storting through its own presentations.

By summarising and presenting these topics systematically in a document which can be reedited annually, the Government wishes to contribute

to greater transparency concerning state ownership. This will serve to underpin the economic development of the companies and contribute to beneficial social development. The document will be coordinated with the State's ownership report.

7.6.2 Annual ownership reports

The preparatory committee on state ownership recommends that the Government prepare annual ownership reports for the entirety of state ownership. Such an aggregate presentation will provide a good overview of state ownership and contribute to improved public insight and democratic control of the way assets are managed. Effectively achieving the companies' goals and making their value creation visible is equally important for companies that have other primary aims than business profitability.

The Government shares this assessment and refers to the fact that substantial sections of the State's ownership are now presented in a combined annual ownership report by the Ministry of Trade and Industry. Some types of national enterprises that have purely sector policy obligations are, for various reasons, organised as limited liability companies, state-owned enterprises or special law companies. Such companies however, may in the Government's assessment, be omitted in a combined presentation. The State's ownership report shows the financial trends in the companies, important events, overview of the boards, etc.

The annual ownership report is sent to the Storting for information purposes. It is not necessary to send annual reports to the Storting for those companies covered by the ownership report. The Ministry of Trade and Industry also publishes a half-yearly report on the Internet. The way the State as an owner conducts itself in listed companies is highly significant for general confidence in Oslo Børs. The Government is mindful of this, which is a substantive concern behind the commitment it has in terms of transparency of ownership.

7.7 Organisation of state ownership

The task of increasing the organisational distance between the State's ownership role and the various authority roles, and the consolidation of commercial ownership in one place in central administration, has served to improve confidence in the State's ownership.

For several years, there have been processes underway for differentiating the State's role as

owner and the authorities' exercise of different public duties. Companies such as Arcus Gruppen, BaneTele, Cermaq, DnB NOR, ECC, Entra Eiendom, Flytoget, Grødegård, Mesta, NOAH Holding, Norsk Medisinaldepot, SAS, SIVA, Statkraft and Telenor have been transferred from other ministries to the Ministry of Trade and Industry. This is in line with the OECD's recommendation to concentrate commercial ownership.

Unless special circumstances dictate otherwise, commercial companies should be administered by the Ministry of Trade and Industry. In this context, the Government would point out that it is not the practice to coordinate commercial state-owned enterprises, since, on the contrary, the practice is for them to compete against each other to the extent that they operate in the same market. An example of this is BaneTele and Telenor which both supply broadband capacity and Hydro and Statoil, which compete in the petroleum and gas sector. It is up to the supervisory authorities to ensure that there is no anti-competitive cooperation between the companies.

If the exercise of shareholder rights no longer needs to be used in conjunction with regulatory instruments in order to achieve sector policy goals, responsibility for ownership administration will be assessed differently. For other companies, the sector policy justification for state ownership may prevail for various reasons. This is because in a number of cases there are generally accepted political objectives informing state ownership of these enterprises, but in other cases it is the production and marketing structure within the sector that dictates continued full ownership by the State and sectoral affiliation for the administration of ownership. Companies with sector policy objectives should be

affiliated with the ministry that has sector policy responsibility.

The Government is in agreement with the preparatory committee on state ownership, that changes in the ministerial affiliation of companies should be based on a complex assessment which takes account of well-functioning markets, State risk management, proper role management and provision for sector expertise and general ownership competence.

Inter-ministerial cooperation on ownership issues is important, so that the ownership expertise of the general body of ministries is exploited as fully as possible. The principles for good corporate governance, guidelines for formulating objectives for return targets and expectations regarding dividends, guidelines for administration and board elections and formulating expectations of boards, and the financial reporting presentation, will be important joint tasks.

In a small number of companies, the State's shareholdings are managed by several ministries. The Government will advocate that a single ministry manage the State's shareholdings in the same company.

There are a number of examples of State administrative bodies owning enterprises that are organised as companies. If these are enterprises with commercial objectives and not purely operating companies, an assessment should be made whether to lodge ownership directly with the responsible ministry or with the Ministry of Trade and Industry. This will ensure a greater degree of political governance and supervision. In individual cases however such an organisation may be reasonable if it also supports sector policy.

The Ministry of Trade and Industry owns 90 per cent of the Andøya Rocket Range, which, through agreements with other countries, carries out rocket and balloon launches. The Ministry of Trade and Industry also owns 100 per cent of Norsk Romsenter Eiendom, which owns the fibre optic cables between Svalbard and the Norwegian mainland as well as 50 per cent of Kongsberg Satellite Services AS. Kongsberg Satellite Services owns infrastructure and has operating responsibility for the Svalbard and Tromsø Satellite Stations. This ownership, which is important in the exercise of sector policy in the aerospace area, is managed by the Norwegian Space Centre, which is an administrative body under the Ministry of Trade and Industry.

The preparatory committee on state ownership recommended that an assessment should be made of establishing a holding company for sharehold-



Figure 7.9 SvalSat 78 degrees North.

Photo: Kongsberg Satellite Services

ings with purely value-maximisation objectives. In those cases, the committee assumed that the need for governance and supervision of the financial dimension was small and could be catered for satisfactorily through a holding company arrangement. Important preconditions for such a recommendation are that the Storting provides the necessary scope for action, and that the holding company is established in accordance with the procedural principles outlined by the committee. The committee maintained that caution was to be exercised as regards the extent and selection of companies in the interests of State risk management and competitive factors.

A number of ownership matters linked to companies where there is an objective to ensure head-office functions in Norway, must be expected to be the subject of political governance and supervision. In addition, the consolidation of the largest companies into a single unit outside of the ministries will possibly involve a risk of unhealthy concentration of economic power. The committee recommended therefore that shareholdings where there is an objective to ensure head-office functions in Norway should not in the first instance be lodged with a holding company. Where ownership is founded on specific defined objectives, the committee believed that a similar assessment was appropriate.

The Government does not believe it is right to establish a holding company for managing the Norwegian State's shareholdings, as an alternative to the current ministerial affiliations. Important ownership matters are of such a character that they need to be handled through a political body. A special administrative/holding company might introduce duplication of work and a lack of clarity in terms of responsibility. The Government agrees with the committee in that shareholdings where ensuring head-office functions in Norway is an important part of the State's objectives, or companies where ownership is justified by specific defined objectives, should not be lodged with a holding company. It must anyway be expected that significant changes in the State's shareholdings in these companies will require political deliberations. A holding company can therefore be assumed to act as an extra complicating and delaying step in the case-handling process.

The current ministerial affiliations ensure transparency concerning ownership and ensure considerations of democratic control. Confidence in the State as an owner is, in the first instance, dependent on other actors having confidence in the ownership decisions being made on a solid,

informed basis, on there being a large degree of transparency concerning ownership, and that the State does not act arbitrarily. Such external confidence will be a function of the resources, the competence and the culture that develops in ownership administration rather than the choice of organisational model. In the Government's opinion, the direction and practice set out over a number of years should be built on, in order to make the decision-making process more effective and confidence-building. If the objectives of ownership are clear and the administration is based on an effective and flexible decision-making system, there are grounds for believing that matters can be managed equally as well within the current ministerial organisation, as without.

7.8 Decision-making authority

Pursuant to section 19 of the Constitution, it is the King (the Government) who administrates the State's property (including shares). It is not within the minister's authority, in accordance with section 19 of the Constitution, to buy or sell shares in companies with state ownership. This must be based on a special authority from the Storting. Through its discussion of Document no. 7 (1972 – 1973) of Recommendation to the Storting no. 277 (1976 – 1977), the Storting established that it has the real decision-making authority for decisions that would significantly affect the State's involvement in companies where the State is sole shareholder. It has been established that the practice described in Recommendation to the Storting no. 277 (1976 – 1977) also applies to part-owned companies.

A rapid rate of change in business often requires quick and extensive restructuring. Such restructuring requires input from the owners, e.g. through the addition of capital, for acquisitions, mergers, sales, etc. It is important that the State as an owner is capable of acting so that companies can exploit development and commercial opportunities, while the value of the State's shareholding is suitably protected. This means that the State must be able to respond actively to proposals put forward by the companies, by putting them to the Storting, and that decisions can be made rapidly enough for the companies to be able to act on the measures.

The preparatory committee on state ownership recommended for individual categories of companies that the Storting authorise the Government in advance in matters changing the State's shareholding.

The committee stated that:

«...when the State decision-making process is claimed to take an unreasonably long time and to be unpredictable, this must be understood on the basis of the decisions having to be dealt with on several levels and involve difficult political judgements relating to state ownership as such. Ministerial consultative processes, the Government's and Storting's debate may mean that considerations other than value maximisation are involved in the deliberations.

It was therefore pointed out that this:

«speaks in favour of decisions being made by the minister responsible with support from other ministries with commercial expertise.»

The committee also stated that:

«The committee recommends a programme for the Storting to deliberate at regular intervals the objectives and the extent of goal attainment on an overall basis for state ownership. In this context, the necessary mandates should also be issued.»

In companies that have specifically defined objectives, the committee advised against advance mandates to the Government. Here, the political evaluations will be broader in nature than simply commercial. The purchase of shares or other capital extension will require a decision based on an appropriation. Appropriations are decided on annually, while mandates to alter shareholdings apply until they are amended. A further complicating element is the regulations on bid obligations, which mean that the purchase of shares in a listed company will trigger a mandatory takeover bid for the company if the shareholding exceeds 40 per cent. This means that the costs of the State increasing its shareholding over this threshold are difficult to estimate. This will become a more significant factor if regulations for more percentage thresholds for mandatory takeover bids are introduced, as one committee has proposed.

The first Stoltenberg Government proposed in Bill to the Storting no. 1 (2001 – 2002) a scheme for the granting of mandates that could be decided on annually by the Storting in connection with debate on the ordinary state budget. The first Bondevik Government proposed in Bill to the Storting no. 1 Supplement no. 4 (2001 – 2002) a general mandate for the sale of shares in a total of 13 companies. In Budget Recommendation no. 8 (2001 – 2002), the majority pronounced that it would only decide on the proposal once the announced ownership report was available. The Storting's discussions of

Report to the Storting no. 22 (2001 – 2002), cf. Recommendation to the Storting no. 264 (2001 – 2002), provided no new general mandates. With the exception of a small number of unused mandates, currently the Government must put specific proposals to the Storting as separate matters.

The Government today has the following advance mandates from the Storting which have not been fully used: Cermaq ASA (down to 34 per cent), Norsk Hydro ASA (up to 51 per cent) and Telenor ASA (down to 51 per cent and down to 34 per cent in case of a merger/acquisition where the company's shares are used for settlement or exchange). The Government also has an authority to reduce the State's shareholding in Statoil to 66.67 per cent. In connection with the demerger of Norsk Hydro ASA, a decision was made that the State's shareholding in Yara International ASA should be at least 33.4 per cent. These mandates were accorded in response to specific case-by-case presentations and not as part of a general arrangement.

The Government will subsequently propose that the Storting revoke mandates granted in previous parliamentary periods to reduce State shareholdings through divestment of shares. Access to implement industrial solutions within the framework of the mandates will continue.

Key to the assessment of whether there is a general need for a decision-making mandate, is whether the present frameworks have hindered the execution of transactions because of a lack of mandates. The Ministry of Trade and Industry is not aware of cases that would require greater ownership dispositions that have not been acted on owing to a lack of decision-making mandates. On the contrary, there have been a number of examples of major ownership matters being dealt with rapidly and without delay by both the Government and the Storting. Examples of this are Hydro's purchase of Saga Petroleum, the demerger of Hydro (creation of Yara) and the acquisition of a 50 per cent share of Nammo.

In some minor ownership matters, an existing mandate for the ministry would probably have facilitated the execution of the responsible ministry's ownership. After a thorough evaluation, the Government has concluded that it will not propose a system of mandates as recommended by the preparatory committee on state ownership. Current practice means that company matters can be dealt with sufficiently rapidly, including when it is necessary to bring the matter before the Storting. The Government will therefore deal with such matters individually in line with former practice.

7.9 Dividends in wholly owned companies and share buy-backs

In its Soria Moria declaration, the Government stated that public companies should have predictable dividend policies. The preparatory committee on state ownership's proposal was to introduce the Limited Liability Companies Act's normal regulations for dividend decisions into State limited companies and state-owned enterprises.

The Government will pursue a predictable dividend policy in wholly-owned companies. This will be achieved by the State setting out long-term dividend expectations for a period of 3–5 years in each



Figure 7.10 Hydro is an energy and aluminium company with 33,000 employees and with activities in some 40 countries. The Qatalum project, a 50 % joint venture company between Qatar Petroleum and Hydro, is progressing according to plan. The parties have recently signed an agreement with a Canadian company for construction of the main buildings and associated production infrastructure. Qatalum is the largest plant for the production of primary aluminium to be built in a single stage. The works will produce 585,000 tonnes a year when in full operation. There are plans for eventually increasing production to 1.2 million tonnes a year in the longer term. The construction will be based on technology developed by Hydro's technology centre in Årdal, Norwegian expertise and experience in project performance, and modelled on the new aluminium works at Sunndalsøra (photo) and experiences from there.

Photo: Atle Johnsen, © Norsk Hydro ASA

individual company. The Government believes that this will give the boards in the individual companies the predictability essential for planning activities, and therefore does not see it as necessary to introduce the normal provisions of the Limited Liability Companies Act for State limited companies and state-owned enterprises.

The Government's dividend policy is based on the objective of long-term market-level returns and solid industrial growth in the companies.

If the State instructs a company to make investments or undertake other activities that the board does not find commercially sound, such a company shall be compensated through separate appropriations. Such appropriations will be able to be granted within the frameworks ensuing from the regulations for State aid. The EEA Agreement as a main rule prohibits operational support for enterprises subject to competition. The scope for compensating enterprises which are assigned special tasks of a non-commercial nature is limited under the EEA Agreement, and a specific assessment has to be made in the individual instances of whether and how such tasks may be compensated.

For individual companies it may nonetheless be considered irrelevant or barely appropriate to compensate specific investments or measures that the owners may have imposed, as a result of the particular preconditions on which the establishment of these companies was based or of the tasks imposed on them.

Individual sector policy companies have laid down in their articles of association that dividends are not to be paid. Other companies which are dependent on grant/annual appropriations normally do not pay any dividend.

Share buy-backs

For a number of years, the State has had agreements with individual listed companies with State shareholdings for the proportional deletion of the State's shares in connection with the companies' buy-back programmes. This means that when the companies have bought back and deleted their own shares, the State has redeemed a proportionate number of shares at an agreed cash price, so that the State's share of ownership remains unchanged. These matters are thus not put before the Storting in advance.

The buy-back of own shares is seen as an effective way of adjusting the company's equity to its needs and is viewed positively in the stock market. A buy-back programme is a way of employing a surplus and should be seen in the context of the

company's capital situation and its dividend policy. Through such a scheme, equity that the company sees no suitable use for is taken back into the stock market through owners who opt to sell their shares. This contributes to increased capital discipline. In that the shares that are bought back are permanently deleted, the underlying value of the remaining shares is not affected.

Where the company's management receives share-based remuneration as part of its incentive programme, in isolation, this can be seen as giving the management an incentive to prefer share buy-backs to increased dividend. In connection with future buy-back agreements with the State, there is a precondition that the company commits itself to seeking to make such incentives neutral in respect of executive management.

The Storting has issued a framework to the Government for the administration of state ownership. This includes, for many companies, a specific shareholding, or a minimum shareholding that the State can own. When the State participates in buy-back programmes with proportionate deletion of shares, the State's shareholding does not change. The State's influence through its ownership thus remains unchanged.

The Government believes that listed companies with State shareholdings should have the same opportunity as other companies to use share buy-backs as a supplement to their ordinary dividend policies. Whether it is appropriate for the State to participate in such schemes should, however, be assessed in each individual instance.

