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# More planet and less profit? The ethical dilemma of an oil producing nation

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**Abstract:** Every oil producing nation is confronted with a complex and fundamental ethical dilemma. On the one hand, there are moral arguments for the nation to use the petroleum resource for the benefit of society and make it available for countries who do not have this natural resource endowment. On the other hand, there are moral arguments for not extracting and using fossil fuels because of $CO_2$ emissions. In short, this creates tension between the need for government revenues to finance welfare benefits and the objective of preserving the environment. A complicating factor is that a nation's domestic oil and gas activities are in its nature global because the activities have a direct impact on the global climate. In this paper, I address a question that to my knowledge is rarely discussed in the business ethics literature: how does an oil producing nation try to resolve this fundamental ethical dilemma? Using Norway as a case, I argue that the nation is well aware of this ethical dilemma, but that there are few signals from the government that it wants to reduce the petroleum activities. Instead, Norway tries to seek redemption by (1) using the financial power of the Oil Fund to promote sustainability issues abroad and (2) building an international brand as an "Environmentally Conscious Energy Nation."

**Subjects: Public Policy; Public Ethics; Energy Policy; Public Finance; Investment & Securities; Business Ethics; Petroleum & Oil Industries**

**Keywords: ethical dilemma; sustainability; petroleum; oil; sovereign wealth fund**

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## PUBLIC INTEREST STATEMENT

For the last fifty years, the petroleum industry has been the backbone of the Norwegian economy, and it will remain so for at least the next fifty years. But there is an increasing public concern about the oil industry's contribution to making climate change worse. Hence, there is an ethical dilemma between, on the one hand, generating income to develop the country and the welfare of the people, and on the other hand, the environmental problems associated with oil and gas activities. This creates tension, which is impossible to ignore for a nation. I argue that Norway tries to ease this ethical tension by using the financial power of the Oil Fund, the world's largest Sovereign Wealth Fund, to promote sustainability issues and to build a brand as a global promoter of protecting the environment.

## 1. Introduction

"We, as a country, we are petroholics.

We do understand that climate change is caused by burning fossil fuels.

At the same time, we depend so much on the income from the oil.

Just like alcoholics, we do want to stop, but we don't know how."

(Thomas Nilsen, editor of the Independent Barents Observer, quoted in Sengupta, 2017)

Since the 1970s, the economic foundation of the Norwegian welfare state has been the petroleum sector. Overall, the country's petroleum policy is considered to be very successful because of the way that Norway has avoided the resource curse (Holden, 2013; Ramírez-Cendrero & Wirth, 2016) and because of its establishment of the Oil Fund in 1990 (formally, the Norwegian Government Pension Fund—Global). As I have discussed elsewhere, the success of the petroleum policy "is not because of coincidence, but because of the ethics and values that were in place when the country first discovered oil in the 1960s and 1970s" (Hunnes, 2019).

Sustainability thinking (broadly defined) has been (either directly or indirectly) an integral part of the overall Norwegian petroleum policy. In the 1970s and 1980s, the discussions were mainly about how to use the oil revenues to build a "qualitatively better society," prevent environmental damage (mostly related to pollution) and respect the moral responsibility toward future generations (intergenerational justice). In the last twenty to thirty years, there has been a growing public concern with, and a discussion on, how Norwegian petroleum activities contribute to global climate change. Therefore, Norway has always acknowledged the dilemma and the tradeoff between accumulating wealth from petroleum and sustainability. "The dilemma of the Norwegian state is this dual role as a commercial player and a regulator with political concerns, and *nowhere is this dilemma more acute than in the petroleum industry*" (Østerud, 2005, p. 708, my emphasis).

The feature of the petroleum policy that has received the most attention in recent years is the Oil Fund, which is known for two things. First, its size, which has made the Norwegian state one of the world's largest investors. Norway's management of oil revenues is perceived as an "extraordinary success … owning on average 1.3 percent of every listed company in the world" (Milne, 2017a). Second, the Oil Fund is known for its increasing focus on ethics and sustainability in the investments made. "The world's biggest sovereign wealth fund is declaring victory in its attempt to become a more active and influential investor on corporate governance" (Milne, 2017b). The Financial Times article describes how the Oil Fund takes a role as an active investor, even going so far as to publicly disclose how it is going to vote on companies' annual meetings in advance. In 2017, the Fund voted against proposals of major companies such as Apple, Alphabet, Facebook, and Amazon. The Fund has also taken a public stance against CEO remuneration based on short-term goals and argues that remuneration must be attached to a long-term incentive plan (Norges Bank Investment Management, 2017). However, the Fund does not consider itself to be an activist investor but an active investor instead. Trond Grande, deputy chief executive at Norges Bank Investment Management (NBIM), stated in an interview in 2016: "we're not an activist investor, we're an active investor, and we're not a passive investor—we're in the middle there. It means we take our fiduciary duty seriously, as we are one of the largest shareholders of many of these companies, particularly in Europe, and it goes hand in hand with good governance and good long-term returns" (quoted in Fixsen, 2016).

The aim of this paper is to answer the research question: How does an oil producing nation try to resolve the fundamental ethical dilemma confronting all countries extracting oil and gas? That is, the dilemma between, on the one hand, generating income to develop the country and the welfare of the people, and on the other hand, the environmental problems associated with oil and gas activities. This creates tension, which is impossible to ignore for a nation, between the need for government revenues and the objective of preserving the environment. Using Norway as a case, I answer the research question by building on previous research and analyzing publicly available documents like newspaper articles and policy papers.

The research in this paper shows that since Norway does not want to end the petroleum activities, the country tries to ease the tension by using the financial power of the Oil Fund to promote sustainability issues and to build a brand as an "Environmentally Conscious Energy Nation." However, this policy is compatible with the idea that "[A] prominent use of CSR in … Norwegian public policy is as a tool to replicate the Nordic welfare state abroad" (Midttun, Gjølberg, Kourula, Sweet, & Vallentin, 2013). Norway's wealth has led the country to perceive itself as important in the world, although the country is located on the outskirts of Europe and has only five million inhabitants. In the country's own constructed national story, Norway and its values are morally superior, even though the wealth is generated by the extraction and use of a natural resource that contributes to pollution and damaging the environment. Norway is a "nation which is obsessed with the idea about being a role model which can help others … We are a nation that wants to spread our values and principles far beyond our borders" (Eriksen, Hompland, & Tjønneland, 2001, p. 479, my translation).

The paper is organized as follows. In the next section, I define and describe in more detail the ethical dilemma. In sections three and four, I give a brief, historical introduction to the Oil Fund before presenting the ethical guidelines under which the Fund operates. Next, I explore the arguments in the current debate on whether it is time to end the oil industry. In section six, I present and discuss my main arguments as to how the country tries to solve the ethical dilemma in practice. Section seven concludes the paper.

## 2. Theoretical background

In this section, I define the fundamental ethical dilemma of an oil producing nation. An important point to remember is that this dilemma is part of the global climate problem. Hence, I also draw on arguments from this discussion when elaborating on the ethical dilemma. I close this section by commenting briefly on the fossil fuels divestment movement.

### *2.1. Defining the ethical dilemma*

Ethics is the critical reflection on the question of what one ought to do when faced with alternatives. Often it is clear which alternative or action the agent should choose. In other cases, the agent is facing an ethical (or moral) dilemma in which there are moral arguments for doing each alternative, but it is not possible to do all of them. More precisely, "the agent is required to do each of two (or more) actions; the agent can do each of the actions; but the agent cannot do both (or all) of the actions. The agent thus seems condemned to moral failure; no matter what she does, she will do something wrong (or fail to do something that she ought to do)" (McConnell, 2018).

In our case, there is an ethical dilemma because in order to generate profit (the moral obligation to increase shareholder value) the oil companies must be involved in activities which also produce $CO_2$ emissions (which contradicts the moral obligation to protect and preserve the climate). Similarly, an oil producing nation has the moral obligation to use the petroleum resource for the benefit of society and make the resource available for countries who do not have this natural resource endowment. On the other hand, there are moral arguments for not extracting and using fossil fuels because of emissions.

There is ample scientific evidence that anthropogenic greenhouse gas emissions, driven by economic and population growth, are the main cause of global warming (IPCC, 2014, 2018). The consequences of global warming are severe. As the United Nations body for assessing the science related to climate change (IPCC) writes in their report from 2014: "Continued emission of greenhouse gases will cause further warming and long-lasting changes in all components of the climate system, increasing the likelihood of severe, pervasive and irreversible impacts for people and ecosystems" (IPCC, 2014, p. 8). The only way to limit climate change is "limiting the total cumulative global anthropogenic emission of $CO_2$" (IPCC, 2018, p. 14).

How does the oil companies resolve this tension between profits and $CO_2$ emissions? In a paper from 2002, van den Hove et al. show that oil companies have different climate change strategies: "fight against emission constraints"; "wait and see"; and "proactive". The companies also try to ease the tension between profits and emissions by either give priority to profit over $CO_2$ constraints or give priority to $CO_2$ constraints. But, as the authors write: "Both [priorities] have their own difficulties and this may explain why some companies prefer to ignore the dilemma" (van Den Hove, Le Menestrel, & de Bettignies, 2002, p. 15).

An oil producing nation is confronted with the same tension between profits and $CO_2$ emissions (and other environmental issues), as the companies in the oil industry. However, the ethical dilemma is larger and much more complex for a nation than for a single oil company. For example, the oil and gas industry creates jobs and economic activities; the revenues from oil and gas are important in order to finance the welfare state; there are more, and in many cases more powerful, stakeholders on the national level; oil and gas activities are often closely linked to international security issues; in some countries, like Norway, the state is directly involved in the oil industry through direct ownership in oil companies, i.e., the state has a role both as a market player and as a regulator; an oil producing nation has moral obligations towards international climate agreements and future generations (intergenerational justice); and finally, a country's domestic oil and gas activities are in its nature global because the activities have a direct impact on the global climate.

### *2.2. The climate problem as a moral problem*

The philosopher Peter Singer argues in his book *One World Now*, that climate change "forces us to think differently about our ethics" (Singer, 2016, p. 25). He continues:

> "Our moral attitudes were formed in circumstances in which the atmosphere and oceans seemed so limitless that we took it for granted that they were able to absorb our wastes without noticeable ill consequences. Under such circumstances, responsibilities and harms were generally visible and well defined. If someone hit someone else, it was clear who had done what and why it was wrong. [...] Today, by driving your car you could be releasing carbon dioxide that is part of a causal chain leading to lethal floods in Bangladesh" (Singer, 2016, p. 25).

Hence, in Singer's view, for us to live an ethical life we must do what we can in order to minimize our carbon footprint and be "activist citizens" persuading governments to find a global solution. But, how should we achieve the objective of minimizing our carbon footprint?

From an economics point of view, the basic problem is that the costs associated with the negative externalities of emissions are not internalized. The solution to this problem is to internalize and establish a price (i.e., a cost to the emitter) of emitting carbon; the higher the price, the less emissions. For this solution to work we consider the atmosphere as a common resource and calculate how much emissions it can handle and still avoid a dangerous climate change.

However, there are researchers who argue for not analyzing climate change as a tragedy of the commons problem. Drawing on insights from political and behavioral sciences, Brown et al. argues that "climate change is a dilemma of decision-making and moral values rather than simply a global resource—or global commons—tragedy" (Brown, Adger, & Cinner, 2019, p. 61). In a paper from 2017, Patt argues that the tragedy of commons framing is not valid for climate change, rather we should think of climate problems in evolutionary terms which "can help us to appraise policy options more effectively" (Patt, 2017, p. 1).

More interesting in our case, Patt argues that "there is no longer a necessary misalignment of incentives between the emitters of greenhouse gases and society at large. Every country, *with the possible exception of major oil and gas exporters*, has reason to mitigate climate change and transform its national energy sector away from fossil fuels, regardless of what other countries may do" (Patt, 2017, p. 2, my emphasis). In other words, there is now an awareness and common understanding across nations that we must reduce climate change and terminate the use of fossil fuels. Newton (2012) makes a similar awareness argument, but with respect to business: "In the end, there should be no permanent opposition between the interests of business and the protection of the environment" (Newton, 2012, p. 672).

There are also those who argue that, from an economic point of view, we should not act on climate change because the cost of prevention is larger than adaptation (Gardiner, 2004, p. 570). These arguments are typically based on some form of cost-benefit-analysis. However, there are many technical challenges with carrying out a cost-benefit-analysis in general and notably for climate change which is the most complex problem humans have ever tried to solve. The climate problem is simply too complex and too important to rely solely on economic analysis. Instead we must think about the climate problem as

> "fundamental questions of morality. They concern how we ought to live, what kinds of societies we want, and how we should relate to nature and other forms of life. Seen from this perspective, it is not surprising that economics cannot tell us everything we want to know about how we should respond to global warming and global change. Economics may be able to tell us how to reach our goals efficiently, but it cannot tell what our goals should be or even whether we should be concerned to reach them efficiently" (Jamieson, 1992, p. 147).

### *2.3. Fossil fuels divestment*

Large investors may use divestment as a strategy to raise awareness of a cause or force a company to change behavior. As I will show later, divestment is also a part of the apparatus used by the Norwegian Oil Fund. Fossil fuels divestment can be defined as "the act of excluding all securities that meet a specific criteria of business activities and practices that generate revenue from fossil fuels" (Sherwood & Pollard, 2019, p. 209).

Divestment campaigns have different objectives, but the tool is the same; terminating investments. This may be divestments in a specific country (e.g., South Africa during apartheid), industry (e.g, the arms industry) or product (e.g., tobacco). There is an ongoing fossil fuel divestment movement, where one of the major aims of the movement is to "stigmatize the fossil fuel industry" (Lenferna, 2018, p. 84). Another objective of this movement is to drive capital and investments into clean energy and thereby expedite the transition to a fossil-free economy (Apfel, 2015).[1] It is suggested that the divestment movement "may play a significant role within the broader sphere of climate change policy" (Ayling & Gunningham, 2017, p. 131).

## 3. The oil fund—a brief introduction

The idea to invest some of the revenues from petroleum resources abroad was first launched in a White Paper in 1974 (Finansdepartementet, 1974). However, many years passed before further action on the proposal was taken. Then in 1990, the Parliament passed a law establishing the Government Pension Fund—Global, and six years later, the first deposit was made.

There were several reasons for establishing the Oil Fund: first, to avoid swamping the domestic economy with petroleum money; second, to use the Fund to smooth the business cycle; and finally, to make investments for the sake of future generations for ethical reasons. This third reason is the one that receives the most attention and is used to promote the Fund: "Our mission is to safeguard and build financial wealth for future generations." (Norges Bank Investment Management, 2018a)

The economists at the Ministry of Finance were not excited about the idea of an oil fund. They were afraid that the Oil Fund would be another source of finances for use by politicians, in addition to the regular government budget. However, the national *political* leadership had a different opinion and vision for the future. Sigbjørn Johnsen, who was the Minister of Finance when the first deposit was made in 1996, states:

> "[The Oil Fund] is a combination of [theoretical] and practical knowledge. I think the stewardship perspective is rooted in us in terms of saving for a rainy day, and the Oil Fund is an example of Norwegian politics at its best. It's a big community project [...]. What we really have been doing is transforming a natural wealth into a financial wealth [..., and we] owe it to the next generation to steward it in a sound manner" (Skredderberget, 2015, p. 75, my translation).

By 2018, the Oil Fund owned by the Norwegian people has become the world's largest Sovereign Wealth Fund (SWF) and invests in approximately 9,000 companies in more than 70 countries.[2] The value of the Fund is approximately one trillion US dollars, or approximately $195,000 per capita. The day-to-day operation of the Fund is made by Norges Bank Investment Management (NBIM) under the supervision of the Ministry of Finance. NBIM has offices in Oslo (head office), London, New York, Shanghai and Singapore and employs approximately 550 people from 34 countries. The Fund invests in three different types of assets: equities (66.2 percent), fixed-income equities (31.2 percent) and real estate (2.7 percent, numbers as of 31 March 2018).[3]

I will not go into the details of the organization of the Fund and how it operates financially. Before moving on to the ethical issues, I want to make two remarks. First, there is a general trust among the public in the work that NBIM executes on behalf of the state and the people of Norway. The reasons for this are (1) the general high trust in the state and its officials, and (2) a broad political consensus on the existence of the Fund and how it should be managed.[4] In addition, the Fund itself is engaged in building an image as a transparent and trustworthy organization. In his book on the Oil Fund, Skredderberget claims that the organizational culture of NBIM is characterized by "thoroughness, prudence, and hard work" (Skredderberget, 2015, p. 108, my translation). This culture of cautiousness, he argues, is in harmony with the national soul.[5]

My second remark is on the relationship between the Fund and the regular government budget. All government income from petroleum resources is transferred to the Fund. In the case of a budgetary deficit (which is the standard case), money is withdrawn from the Fund and included in the regular government budget. Politicians are not allowed to use the Fund for any other purpose. Therefore, money from the Fund is only spent on items that are given priority in the government budget, as approved by the Parliament. In addition, in 2001, the government introduced a fiscal rule stating that the government could only use up to four percent of the real return from the Oil Fund. In 2017, the rule was changed to three percent. First, and most importantly, by using only the real return, the Fund itself is not reduced. Second, there is a restriction on the amount of money available to cover a budget deficit. Third, the rule is transparent and contributes to the stability of the economy.

## 4. Ethical investment guidelines and the council of ethics

After the first deposit in the Oil Fund in 1996, its size grew rapidly. It did not take long before private humanitarian and environmental organizations and a few politicians on the left, especially from the Socialist Left Party, started to worry about some of the investments made by the Fund. They argued that Norway should not make money from investing in firms that produce dangerous goods or show bad conduct; there must be some ethical guidelines. At first, rival politicians and government officials did not take these suggestions seriously. The economists at the Ministry of Finance claimed that it was impossible to enforce ethical guidelines and that the cost would be too high. That is, ethical guidelines would serve as a constraint on optimizing the investment return. However, two disclosures contributed to changing all this.

During the 1990s, Norway took a clear stance against the production and use of anti-personnel mines and signed the 1997 Ottawa Treaty.[6] In 2001, the Socialist Left Party discovered evidence that the Oil Fund invested in a company that produced these types of mines. The good country had violated its commitment to the Treaty. Politically, this was discomforting. However, things were going to become worse.

The second disclosure came in 2002 when one of the country's leading newspapers (Dagbladet) presented a long article with the headline "Nuclear weapons. Landmines. Child labor. Slavery. All of this earns Norway money through the Oil Fund" (Dagbladet, 2002, my translation). The political pressure on the government, at the time a coalition led by a Prime Minister from the Christian Democratic Party, became too large to ignore. Even the right-wing populist party, the Progress Party, called for action. The party's spokesperson on financial policy commented: "We cannot live with these scandals. Most of all, I react to Norway fighting for human rights while at the same time breaking the same human rights by the investments made by the Oil Fund. I am preoccupied with (financial) return, but we must not forget to safeguard our international humanitarian law obligations" (quoted in Ergo, 2002, my translation).[7]

Following this political pressure, the government established a public committee in 2002 that addressed the possibility of introducing ethical guidelines on investments made through the Oil Fund. Based on the recommendations of the committee (NOU 2003:22, 2003), a set of guidelines were introduced in fall 2004, together with the establishment of the Council of Ethics. The Council makes recommendations on excluding specific products and companies as investment objects. Companies can be excluded because they produce a damaging product (product-based exclusion) or because of misconduct (conduct-based exclusion). For example, the Fund does not invest in companies that produce nuclear weapons (Lockheed Martin Corp.) or tobacco (Philip Morris International). The recommendations by the Council of Ethics are available online and are organized according to the following categories: (1) serious violations of human rights; (2) severe environmental damage; (3) serious violations of individuals' rights in situations of war or conflict; (4) gross corruption; (5) other particular serious violations of fundamental ethical norms; (6) cluster munitions; (7) nuclear weapons; (8) anti-personnel landmines; (9) tobacco production; and (10) sale of military equipment to certain states.[8] These categories also reflect the criteria of the Fund's ethical guidelines (§§2 and 3).[9]

### *4.1. Active ownership as an alternative to divestment*

Based on the recommendations of the Council of Ethics, the Norges Bank decides whether to withdraw from an investment or not. More interestingly, the guidelines (§6 no. 3) allow the Fund to use active ownership instead of selling out or to avoid investing in a company that does not fulfill the ethical requirements. Therefore, the ethical guidelines present the Oil Fund with alternatives: either do not invest in specific industries or companies that do not fulfill the ethical standards or invest and use active ownership to influence the company to change its behavior.

As part of being an active owner, the Fund has regular meetings with several of the largest companies in the world that execute governance. "We are constantly developing our understanding of good governance and sustainability and how they relate to financial risks and returns. [...] We devote additional attention to three focus areas to understand how we should approach such challenges: climate change, water management, and children's rights. We have also started to map company disclosure on human rights and tax and transparency. We have established specific expectations of companies in these areas and aim to measure company disclosure over time." (Norges Bank Investment Management, 2018b)

## 5. Time to end the oil industry: the planet first?

When oil and gas were discovered in the North Sea fifty years ago, there was a concern with how petroleum activities would affect the environment. However, the concern was limited to the risk of oil spills and *potential* damage to the fisheries. An essential objective for the government was to avoid a conflict between different stakeholders; in particular, the oil industry and the fisheries. To a large extent, this succeeded because the oil discoveries were located further into the North Sea than the main fishing areas. However, there has always been a tension between local industries and businesses who want to explore for petroleum resources closer to land (and more importantly, further north), and the fisheries and the environmental movement.

Domestically, Norway has clean hydropower and invests in clean technology, e.g., electric cars. However, internationally, the country contributes to emissions from its oil and gas exports. For a long time, the argument has been that it is better that European countries consume Norwegian gas instead of using electrical power created by coal (the latter generating more emissions). However, this argument is and will be further weakened because of the increasing use of clean and renewable energy throughout Europe and the rest of the world. Additionally, there are more international political collaborations and agreements, such as the Paris agreement and the UN Sustainable Development Goals, which attempt to solve the global climate problem. If these arguments are not sufficient to reduce petroleum activities, they will, however, place an economic downward pressure on the profit margins of the oil and gas industry and force a new way of thinking. Therefore, there is a growing awareness in the society that the economy must find new industries to sustain the extensive and costly welfare state.

There is also a sentiment among young people that they want to work with companies that promote social responsibility. This may be one reason behind the name change of the state oil company Statoil in 2018. The new name is Equinor, i.e., there is no association with “oil” and instead they use “equal”, which signals, according to the company itself, words such as “equal, equality and equilibrium” (Statoil, 2018). According to Financial Times, “Mr. Saetre [CEO] insisted that ‘oil is not a dirty word’ but that Statoil was ‘developing from a focused oil and gas company to a broader energy’ one.” (Pooley & Pheifer, 2018)

The most controversial issue is the fact that to explore new petroleum fields in the sea, the exploration must move north where the climate is rougher and nature more vulnerable. Therefore, there is an intense and emotional tension between continuing petroleum activities and protecting the environment and sea life. “[W]hile there may be a global effort under the Paris agreement to reduce emissions, that certainly has not stopped the international race for Arctic oil. Norway is in the vanguard of that scramble, trailed by Russia, Canada and the United States.” (Sengupta, 2017)

### *5.1. Climate as an argument*

With respect to the environment and petroleum, two main discussions have taken place in the last few decades. First, how far north into the Arctic should one allow petroleum activities to take place. This should be viewed as a continuation of the debate starting in the 1970s when there was a discussion on exploration north of the 62nd parallel. Second, whether Lofoten, Vesterålen, and Senja (LVS) should be shielded from exploration. This area is particularly valuable because of its fish spawning areas. In addition, the area is considered to be one of the most scenic places in Norway, and as such is a famous tourist destination. The LVS case has been an important topic in recent political elections, and there has been a large grassroots movement that has joined the environmental movement in the fight for permanent conservation. In the recent survey (2017) of the Norwegian Citizen Panel administered by the University of Bergen, 60 percent of the respondents were against oil exploration in LVS. The number was 70 percent for people in the northern part of Norway (Amundsen, 2018). That is, the people who would benefit the most from increased employment in petroleum activities in LVS were the most strongly opposed. The same survey showed that 52 percent wanted to reduce petroleum activities in Norway within the next 20 to 30 years. Therefore, the Norwegian people are divided in half on this question.

One point I want to make in this section is that climate is a relatively new argument in the petroleum-related environmental debate in Norway. During the 1970s and 1980s, the primary concern was with the risk of oil spills. It is only after the year 2000 that a more general climate argument has entered the debate. Therefore, the discussion at present is concerned not only with pollution directly caused by oil spills but also with the overall effect on global climate due to Norwegian petroleum activities.

However, does the average Norwegian believe in climate change? The recent European Perceptions of Climate Change (EPCC) report showed that 93 percent of Norwegians answered that they believed that the climate was changing. At the same time, only 4 percent of Norwegians believe that climate change is "mainly caused by human activity." This latter percentage is significantly lower compared to those of respondents in France, Germany, and the UK. Another interesting finding from the survey is that Norwegians have a significantly higher faith in that "science and technology will eventually solve our problems with climate change" (Steentjes et al., 2017). Another study shows that Norwegians are the least concerned among ten European countries about the melting of the Arctic sea ice (Buckley et al., 2017). In general, the Norwegian people seem to be relatively less concerned about climate change than other countries. This, together with a high GDP per capita, contributes to explaining (1) why private consumption is high and (2) why according to the Happy Planet Index, Norway's ecological footprint is "almost three times the level considered sustainable."[10]

## 6. How to solve the ethical dilemma?

Let us return to Norway's fundamental dilemma. The country needs the income from extracting and producing oil and gas to finance its extensive welfare state and to contribute to economic growth. On the other hand, Norway also clearly understands that its petroleum activity contributes to a growing global environmental crisis. Therefore, how should the country resolve this ethical dilemma? I argue that Norway tries to seek redemption by (1) using the financial power of the Oil Fund to promote sustainability issues and (2) building a brand as an "Environmentally Conscious Energy Nation." In this section, I explore these two perspectives.

### *6.1. The oil fund as a tool to promote a set of values*

Every aspect of the Oil Fund is ethical: both the motivation and the establishment of the Fund itself and the investments that it makes.[11] This is also expressed in the two premises of the ethical guidelines (2004 version). First, the Fund "is an instrument for ensuring that a reasonable portion of the country's petroleum wealth benefits future generations [, …] and must be managed so as to generate a sound return in the long term." Second, the Fund should not "contribute to unethical acts or omissions, such as violations of fundamental humanitarian principles, serious violations of human rights, gross corruption or severe environmental damages" (Nystuen, Follesdal, & Mestad, 2011, Appendix 2).

One of the first decisions of the Fund's Council of Ethics was to recommend that Wal-Mart Stores Inc. be excluded from the Fund. This case is compelling for several reasons. First, it shows how the Council works. Second and more interestingly, the discussions that followed illustrate some of the problematic issues involved in being a massive global investor that chooses to follow a divestment policy. The Council starts their report with the allegation that (p. 1):

> "Wal-Mart is alleged to run its business operations in a manner that contradicts internationally recognised human rights and labour rights standards, both through its suppliers in a number of countries in Asia, Africa and Latin America, and in its own operations. There are numerous reports alleging that Wal-Mart consistently and systematically employs minors in contravention of international rules, that working conditions at many of its suppliers are dangerous or health-hazardous, that workers are pressured into working overtime without compensation, that the company systematically discriminates against women with regard to pay, that all attempts by the company's employees to unionise are stopped, that employees are in some cases unreasonably punished and locked up, along with a number of other allegations […]."

After discussing and documenting the allegations, the council then concludes (p. 23):

> "The Petroleum Fund's Council on Ethics accordingly considers that there is an unacceptable risk that the Fund, through its investments in Wal-Mart Stores Inc., and Wal-Mart de Mexico

> S.A., may be complicit in serious or systematic violations of human rights. The Council recommends that Wal-Mart Stores Inc. and Wal-Mart de Mexico S.A. be excluded from the Petroleum Fund's portfolio." (Council of Ethics, 2005)

The *recommendation* to exclude Wal-Mart because of misbehavior (which was followed and executed in 2006) made international headlines. The U.S. Ambassador to Norway, Benson K. Whitney, was very upset and accused the Norwegian government "of a sloppy screening process that unfairly singled out American companies." He added, "I'm not sure the Norway government understands the power of being one of the largest investors in the world" (Landler, 2007).[12]

Being the world's largest SWF is not unproblematic, as the Wal-Mart case illustrates. In September 2006, Whitney elaborated his critique when he gave a speech at the Norwegian Institute of International Affairs (NUPI).

> "I respectfully ask the Norwegian government and people to fully recognize the seriousness of what Norway is doing with divestment decisions like these. Norway is not just selling stock—it is publicly alleging profoundly bad ethical behavior by real people. These companies are not lifeless corporate shells. They represent millions of hard-working employees, thousands of shareholders, managers and Directors, all now accused by Norway of actively participating in and supporting a highly unethical operation. The stain of an official accusation of bad ethics harms reputations and can have serious economic implications, not just to the company and big mutual funds, but to the pocketbooks of workers and small investors." (quoted in Chesterman, 2011, p. 61).

Whitney, in essence, is pointing to the moral responsibility of professional investors, and more specifically, to their responsibilities regarding foreign ethical divestment.[13] As a state, Norway (like other states) has the responsibility (beyond those of private investors) not to invest in companies whose activities conflict with international agreements. However, there is no doubt that Norway follows a deliberate policy by means of the Oil Fund: it not only makes "clean" investments but also pushes for more responsibility and sustainability in global companies through active ownership. When the Minister of Finance, Kristin Halvorsen, was asked by the New York Times to comment on Ambassador Whitney's first critique, "she made it clear that she would like to expand Norway's social agenda." Furthermore, "In a global economy, ownership of companies is the most important way to have influence" (Landler, 2007).[14] The quest for expanding the Norwegian "social agenda" is in line with what the political scientist Østerud labels "moral *policy of engagement*", where "[t]he national ambition in the globalisation era is to make Norway a *brand* for peacemaking, development aid and better environment" (Østerud, 2005, pp. 705, 713).

### *6.2. Building a brand as an "environmentally conscious energy nation"*

In 1987, the UN report on sustainability, the Brundtland Report, was published with the title *Our Common Future*. The commission was led by a former Prime Minister of Norway, Gro Harlem Brundtland, and this "made it necessary for Norway to be a good role model for other countries and a front-runner in CSR—with regards to the environment as well as to other social issues" (Ditlev-Simonsen, Hoivik, von, & Ihlen, 2015, p. 178). Therefore, this is yet another reason for the Norwegian "moral *policy of engagement*" and the branding of Norway as an environmentally friendly nation.

Norway wants to be perceived as a proactive protector of the environment in order to balance out the fact that oil and gas is its most important industry and will be for many decades. Revenues from the petroleum industry are fundamental to the Norwegian economy and its world-leading engineering skills and competence. It is assumed that Norway's production level of oil and gas has already peaked. However, to maintain and develop the oil business further, the government has a strategy: "It is an important goal to make it possible for the Norwegian petroleum industry to succeed internationally, so that it can also create value when production on the Norwegian [continental] shelf falls" (Utenriksdepartementet, 2009, p. 60, my translation). This process has already started years ago; Equinor (formerly Statoil) has activities in more than 30 countries and an increasing share of its revenue comes from foreign operations.

Since the climate and environmental problems are global, the Norwegian petroleum policy must be oriented internationally and be a part of the overall foreign policy. It is interesting to observe how the White Paper titled *Interests, responsibility, and opportunities. Principles of Norwegian Foreign Policy* (Utenriksdepartementet, 2009) promotes Norway not only as an "energy nation" but also as an "environmentally conscious energy nation." It also draws attention to the Oil Fund and all of the media attention that it has received from "serious international media", which perceives Norway as a "role model" (p. 63).

## 7. Conclusion

For the last fifty years, the petroleum industry has been the backbone of the Norwegian economy. Moreover, it will remain so for at least the next fifty years. However, there is an increasing public concern about the oil industry's contribution to making climate change worse. This poses a dilemma. On the one hand, the country's wealth is based on oil and gas. On the other hand, the country wants to be proactive (in the global arena) in the fight against climate change. In short, the dilemma is profit vs. sustainability.

Because of the economic importance of the oil industry, the Norwegian government is reluctant to terminate the oil and gas activities. Instead, the Norwegian government strategy is to proceed along two main paths dominated by technology (Utenriksdepartementet, 2009, p. 63). First, a focus on energy efficiency and renewable energy sources, especially water power, solar energy and offshore wind power. Second, Norway participates in international cooperation and develops technology for the carbon capture and storage of coal, oil, and gas. Hence, the government's strategy is for the oil business to continue its activities, both domestic and international, but for it to offset its negative externalities by contributing to the development of new technology.

But, as I have argued in this paper, equally important for the Norwegian policy to work is the path to seek redemption by using its Oil Fund to promote and demand sustainable business models and practices from foreign (and global) companies and to continue to build its brand as a global promoter of protecting the environment.

This "redemption-path" is dependent on at least two critical factors. First, the financial power of the Oil Fund. Second, it may be easier to follow this policy by a small country because of political and public administrative "informality, flexibility and greater autonomy of officials" (Thorhallsson & Steinsson, 2017, p. 9). A small state also "seek status by taking on admirable tasks or excelling in a particular field" (Thorhallsson, 2018, p. 26), which is exactly what Norway has been doing in managing the Oil Fund. Hence, the Norwegian petroleum policy may not be easily adopted by other natural resource abundant countries.

As a final comment, even if the pragmatic policy has succeeded in the past, this may not be the case in the future. As the effects of climate change become more apparent, more critical questions are raised; there is a growing ethical uneasiness in the land of "petroholics."

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**Notes**

1. See Ayling (2017) for a discussion on the legitimacy of the disinvestment movement and Lenferna (2019) for a discussion on the morality of divestment in fossil fuel.
2. Rankings of the SWFs are available from the Sovereign Wealth Fund Institute, https://www.swfinstitute.org/sovereign-wealth-fund-rankings/.

As of April 2019, the ten largest SWFs are located in Norway, China, the UAE—Abu Dhabi, Kuwait, China—Hong Kong, Saudi Arabia, China, Singapore, Singapore, and Saudi Arabia. The ratio between the size of the largest and the 10th largest is 2.99.

3. As of 31 March 2018, the five largest equity investments are in Apple, Microsoft, Nestlé, Alphabet and Royal Dutch Shell. Up to seven percent of the Fund can be invested in real estate. As of 2018, investments in real estate (office buildings) are focused in (but not limited to) the cities of New York, Boston, Washington D.C, San Francisco, London, Paris, Berlin, Munich, Tokyo and Singapore.
4. That said, in recent years two discussions have been taking place. First, there is a concern that the Fund does not have its own board but that it is part of the organization of the Norges Bank (the Norwegian Central Bank). Second, there is an academic debate on the cost-benefit of following an active vs a passive investment strategy. That is, should the Fund invest so that it beats the market, or should it be satisfied with a general market return?
5. As I have stated, the Fund itself wants to be transparent (it is considered to be one the most transparent SWFs) and of high integrity. As an example of the latter, the employees of NBIM are not allowed to have their lunch paid by someone else, and they are not allowed to receive gifts of any kind. If, however, they receive a gift that for some reason cannot be returned, the NBIM holds an internal lottery and the money is given to charities such as the Salvation Army (Skredderberget, 2015, p. 110).
6. The formal title of the Ottawa Treaty is "The Convention on the Prohibition of the Use, Stockpiling, Production and Transfer of Anti-Personnel Mines and on their Destruction." In 1997, the Norwegian Nobel Committee awarded the Nobel Peace Prize to the International Campaign to Ban Landmines and its leader Jody Williams.
7. The same spokesperson (Siv Jensen) became Minister of Finance in 2013, and two years later she suggested to close down the Council of Ethics. However, the Parliament voted "no" on the proposal.
8. http://etikkradet.no/recommendations/.
9. An English translation of the guidelines is available here: https://www.regjeringen.no/globalassets/upload/fin/statens-pensjonsfond/formelt-grunnlag/guidelines-for-observation-and-exclusion-from-the-gpfg—17.2.2017.pdf .
10. http://happyplanetindex.org/countries/norway .
11. In 2017, the Oil Fund proposed to stop investing in oil and gas companies (Sheppard, 2017). This seemed like a good environmental decision and was celebrated as a victory by the environmental movement. However, the argument from the NBIM was not grounded in environmental considerations; rather, it was a purely financial decision to reduce the Fund's exposure to the overall risk from the energy sector because Norway's income originates from the oil and gas sector.
12. The first leader of the Council, Gro Nystuen, later admitted that the Wal-Mart case had become a much larger issue than expected (Andersen, 2008). In that respect, Whitney was spot on.
13. For a discussion on stakeholder duties, see for example Sandbu (2012), and for an overview of foreign ethical divestment, see Nyuur, Amankwah-Amoah, and Osabutey (2017).
14. This last statement is rather remarkable given that Halvorsen represents the Socialist Left Party.

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