

The Oil Fund as a political activist

by Dag Dyrdal, Montalban AS



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Dagens Naeringsliv

Norwegian politicians increasingly see the Government Pension Fund Global (Oil Fund) as a political tool for their different agendas. Maybe they need to discuss how to protect the fund better against themselves?

The past year has shown an increasing willingness to challenge an important foundation for the Oil Fund -- the clear distinction between a politically determined framework and commercial fund investments within that framework. While politicians historically have filtered out the worst ethical offenders, new initiatives suggest a more active use of the fund and the investments to pursue different political projects.

The Environmental Party considers the fund a climate policy instrument. The Centre Party wants to split up the fund and decentralise management across Norway. While in opposition, The Progress Party wanted to use the fund as a lever for increased infrastructure investments in Norway, while the Christian Democrats and the Liberals on several occasions have wanted more development-oriented and green investments. Against this backdrop, it is not unnatural for Labour Party's new leader Jonas Gahr Støre to want a public discussion about the fund's coal investments.

Nevertheless, it represents a turning point compared to his predecessor. Jens Stoltenberg was, along with other proud fathers of the fund, dedicated to a holistic thinking, to shield the fund from short-termism and special interests. The introduction of the fiscal rule and the name change to "Pension Fund" was among the tools, as was an absence of earmarked investment pockets.

Why this change? I see three possible reasons. Firstly, the fund's parents have largely left Norwegian politics. Holistic thinkers are on the defence against single-issue politicians. Secondly, the fund's rapid and strong growth has made the self-imposed political chastity more demanding. "How can you not use this opportunity to make a difference" has a stronger appeal than "saving for future generations." Thirdly, there may be a lack of grand political visions in Norway? Politicians who want to pursue global projects can hardly ignore the fund's potential as an international toolbox.

The current parliamentary composition reinforces the trend. The many new and young parliamentarians most likely consider the gains from defending status quo as marginal. On the other hand, being able to "do something" by proposing fund changes without demands for budgetary coverage, is as close to a free lunch a politician can get. Media's ability to drive the political agenda is

also a contributor. Where the fund founders tried to hide the money, the new owners are expected to take part in ongoing, public debates on coal, rain forests and corruption.

It is important not to lose sight of the fund's purpose. The Oil Fund is set up to phase in petroleum revenues into the economy and allocate the wealth between generations as a collective saving scheme. If other political agendas start to weigh heavily on the fund, there is a danger that it will be loaded up with political purposes and become a fund that does everything and therefore nothing.

Norwegian parliamentarians deserve praise for their governance to date, not least for the fiscal rule and for having maintained a long-term strategy throughout the financial crisis. They have established a strong structure and defined the strategy according to risk appetite and within ethical boundaries. They have exercised a professional ownership, active on principles and passive on detail.

The debate about exclusion of coal is in line with the governance structure, but has some principal side effects for the fund. Partly, the debate is not only about negative filtering, but also linked to expectations for positive filtering of renewable energy. It may also be difficult to exclude coal while retaining oil and gas in the fund portfolio, if climate concerns are the rationale. A final argument is the international signal effect, something the initiators behind the proposal emphasise. An exclusion of coal may, as they hope, be seen as an important contribution to achieving the UN's climate targets. But it could also be interpreted as a measure by an oil and gas economy to ensure future market provision -- a clever, political investment.

There is also another proposal out to establish separate ethical guidelines for government bonds, which may threaten the current consensus that the fund shall not be used as a foreign policy tool. Today, the fund follows the UN sanctions regime. With the proposal, the manager of a sovereign wealth fund would be required to assess how well other governments run their countries. It will be extremely difficult for these countries, let alone ourselves, to grasp any distinction from Norway's foreign policy. Consequently, as with the coal proposal, the result will be an increasing politicisation of the fund, both at home and abroad.

The Oil Fund is founded on a broadly aligned framework which entails prudent and long-term management of the fund, but also a demarcation and predictability for political intervention. It makes sense from time to time to discuss the fund's framework, structure and strategy in a changing world. The purpose of the fund and the appropriate set-up will always be a political decision. When that discussion is to take place, it is important to remember the historical legacy and future responsibility, to ensure a comprehensive perspective.

The author was part of NBIM's senior management team from 2009 to 2012. Today, he works as an advisor to corporations and financial institutions, including the Norwegian Government Pension Fund.