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The Welfare Implications of Oil Privatisation: A Cost-Benefit Analysis of Norway's Statoil

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The oil industry is of great economic significance to many countries, and privatisations of National Oil Companies (NOCs) have often been controversial, as have been the benefits from privatisation more generally. When considering the economic impact of privatisation, social cost-benefit analysis (SCBA) is able to move beyond the analysis of corporate performance and efficiency, and to consider the welfare of all relevant stakeholders including consumers, government and employees. To do so, SCBA contrasts the factual scenario (what happened?) with a plausible counterfactual (what would have happened under continued state ownership?), and examines the distribution of the implied costs and benefits.

We conduct a SCBA of the partial privatisation in 2001 of Norway's NOC Statoil, when 18% of the company's shares was sold to private investors. Although Statoil was seen as reasonably efficient even before 2001, we estimate the net present value of welfare improvments associated with partial privatisation to be at least NOK 166 billion (US$18.4 billion) in 2001 money, which amounts to 11% of Norway's GDP in that year. Savings on   investment costs are the most important source of efficiency improvements, and two thirds of the overall benefits accrue at fellow stakeholders in Statoil-led operations. The state manages to capture two thirds of the total welfare gain, with the remainder going to private shareholders and no changes to consumer surplus. We show that even partial privatisation can lead to meaningful improvements, that ownership change might be supported by additional restructuring measures, and that privatisation can be structured with state involvement at several levels to maximise the public share of benefits.

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