COLLECTING RENT: POLITICAL CULTURE AND OIL AND GAS FISCAL POLICY IN ALBERTA, CANADA AND NORWAY

by

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ABSTRACT

This paper seeks to explain divergent policies toward oil and gas development across two jurisdictions, Alberta, Canada and Norway. Empirical evidence reveals that Norway collects a significantly higher portion of available economic rent from oil and gas activities than Alberta. Edwards (1987) postulates that if we assume governments have similar economic objectives (e.g. to receive the highest possible levels of revenue from the exploitation of a depleting natural resource), then it is to be expected that oil and gas policy outputs in various states would be similar. Why then did Norway develop a policy regime that allows it to capture comparatively higher levels of economic rent? The puzzle is even more interesting given the fact that Alberta and Norway are both advanced, industrialized, mature democracies that share many institutional characteristics.

In response to this question, this paper presents a framework that links contemporary variations in rent collection performance to early government policies in Alberta and Norway. Several alternative explanations are tested as a means for understanding these divergent policies: resource differences approaches, bargaining power explanation, and political institutional differences. Finding each of these alternative explanations insufficient, it is argued that fundamental differences in political culture are important for understanding variations in early policies and ultimately in rent collection performance.

The implications of this research are important both theoretically and empirically. For one, the analysis overcomes some of the traditional shortcomings of political culture analyses by delineating the specific dimensions of political culture that impacted policy outcomes. The analysis is pushed further by hypothesizing the intervening mechanism linking political culture to policy outcomes, namely motives. On the empirical side, there is a dearth in the political-economy literature dealing with why oil and gas fiscal policy outputs differ between developed states. This research seeks to fill this gap by focusing on how political culture can affect oil and gas policy.

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I owe each of you, and many others, a great deal of gratitude.

DEDICATION

To my parents

1 INTRODUCTION

This paper seeks to explain divergent policies toward oil and gas development across two jurisdictions, Alberta, Canada and Norway. Since the 1970s, Norway has had in place a policy framework that allows it to capture a high level of revenue (or economic rent)[1] from the oil and gas sector. The Norwegian model of oil and gas management is often touted as a policy success (Andersen, 1993; Eifert, Gelb, and Tallroth, 2002; Larsen, 2004), both in terms of capturing a high level of economic rent from industry and for prudent long-term saving and investment of revenues (e.g. Acher and Moskwa, 2008; IMF, 2001; OECD, 2007). In contrast, the level of rent collected by the Alberta government is considerably lower and the idea that Albertans are not receiving their fair share[2] from oil and gas activities is receiving increasing attention (e.g. Parkland Institute, 1999; Taylor and Raynolds, 2006; Pembina Institute, 2007).

Edwards (1987) postulates that if we assume governments have similar economic objectives (e.g. to receive the highest possible levels of revenue from the exploitation of a depleting natural resource), then it is to be expected that oil and gas policy outputs in various states would be similar. Why then did Norway develop a framework that has allowed it to capture high levels of economic rent whilst Alberta did not? The puzzle is even more interesting given the fact that Alberta and Norway are both advanced, industrialized, mature democracies that share many institutional characteristics.

[1] Economic rent generated by oil and gas production is the net difference between the international commodity price of oil and gas less all costs of production (exploration, development, operating, capital and transportation costs), including an allowance for a normal return on capital employed (profit) but before royalties, taxes, and duties. Economic rent is thus the net revenues generated from the production of oil and gas and throughout the paper, rent and revenue are used interchangeably (Parkland Institute, 1999).

[2] Recently, the Alberta government's own Royalty Review Panel (2007) concluded that "Albertans do not receive their fair share from energy development...the onus is on their government to re-balance the royalty and tax system so that a fair share is collected" (p. 7).

Firstly, this paper posits that contemporary variations in rent collection performance stem from early government policies in Alberta and Norway that were developed in the years prior to and immediately after the major oil discoveries in 1947 and 1969 respectively. The policies and institutions established in the early years have remained remarkably stable over time and are largely (though not entirely) responsible for the divergent levels of rent collection we observe today. The focus is on two key areas of oil and gas policy: state participation and tax/royalty levels. Early government policies constitute the core dependent variable of this study while rent collection levels are used as a proxy that represent more fundamental differences in policy approaches to oil and gas development.

As a necessary first step, the resource differences explanation is applied in order to establish whether the observed differences in rent collection performance are the result of divergent government policies rather than technical differences in the cost of production or value of the resource. Then, focusing on early policies, there are two conventional explanations for understanding the divergent approaches taken by Alberta and Norway. For one, the divergent approaches could be attributable to differences in the bargaining power relationship between key actors, namely government and industry. Secondly, it is possible that the policy differences between Alberta and Norway are the result of differences in political institutional arrangements (electoral system and patterns of interest group interaction), since Alberta is a prototype majoritarian system whereas Norway is a prototype consensus system. Later analysis reveals that these alternative explanations are insufficient (though not entirely unimportant) for understanding divergent policy trajectories.

The central argument of this paper is that fundamental differences in political culture across the cases constitutes an important explanatory variable for understanding the divergent policy trajectories and hence, divergent levels of rent collection. Throughout the analysis, the primary focus is on the domestic determinants of policy outcomes and international factors are largely ignored.

The remainder of chapter 1 outlines the methodology, relevant literature, core assumptions, and cases. Chapter 2 details the organizational framework that links early policies to contemporary variations in rent collection. Chapter 3 tests the above mentioned alternative explanations. Chapter 4 details a political culture explanation that addresses the core research question of the paper and chapter 5 summarizes the main findings of the analysis and discusses some implications.

1.1 Methodology

This paper employs the comparative method, specifically undertaking a 'most similar case' comparison between Alberta and Norway. A most similar case comparison focuses on a particular category of states (e.g. developed mature democracies) and seeks to discover the correlates of the differences in policy outcomes they manifest. For this reason, this approach is particularly well suited to account for differences between cases (Castles, 1982). The main steps in the methodology followed include: 1) selecting appropriate cases to be investigated; 2) piecing together the core components of early government policies; and 3) identifying and detailing various independent variables and testing the hypotheses of these variables against the evidence.

1.2 Theoretical Background

This research adds to the body of literature pertaining to comparative analyses of oil and gas fiscal policy arrangements in oil producing countries. The majority of the literature focuses on differences between developing and developed countries, largely attributing variations in policy arrangements and performance to levels of institutionalization (e.g. Karl, 1997; Eifert, Gelb, and Tallroth, 2002) or the political state (Auty, 2001). Considerably less work has been done pertaining to divergent policies amongst advanced democracies, both in general (Steinmo, 1989) and in oil and gas policy in particular.[3] As noted by Eifert, Gelb, and Tallroth (2002), "while there is a large literature on the management of oil resources, comparative analysis of the underlying political determinants of policy is more sparse" (p. 1).

This paper seeks to fill this gap in the literature by presenting political culture as an important variable for understanding variations in government policies toward oil and gas development in two developed jurisdictions. In this way, the paper also builds upon the sizable body of political science literature that advances political culture as an important explanatory variable for understanding political and economic outcomes (e.g. Almond and Verba, 1963; Pye and Verba, 1965; Inglehart, 1988; Zimmerman, 1992). Beyond this, the findings of this paper should provide insight into the relationship between the state and capital in the context of resource development in developed countries (e.g. Howlett and Rayner, 2001; Hessing and Howlett, 1999; Pearce and Turner, 1990).

1.3 Core Assumptions

Though it is possible to argue that governments should capture one hundred percent of economic rents, the reality is that governments seek a balance between rent collection and other objectives such as economic growth, promoting exploration and development, and the efficiency of companies (Taylor et al., 2004).[4] Rent maximization is presumed to be one of several important objectives considered when establishing an oil and gas fiscal policy framework. However, it is assumed that the role of government is to ensure that resources are developed to the maximum benefit of its citizens (Pearce and Turner, 1990) and it is for this reason that we are

[3] There are some notable exceptions such as Andersen (1993) and Edwards (1987).

[4] There is no established international benchmark of rent collection for governments to achieve and this paper is not concerned with prescribing a precise value that governments should seek to obtain. Instead, the focus is on explaining the *relative* difference between the levels of rent captured by Alberta and Norway (not *absolute* values).

concerned with the relative difference in the levels of rent collected between Alberta and Norway.[5] Lastly, it is worth stressing that any economic rent not collected by government accrues to industry in the form of a subsidy.

The oil and gas industry is characterized by "large, capital-intensive, multinational, vertically integrated firms, operating according to long-range plans" (Jacoby, 1974, p. 19). The various multinational corporations (MNCs) which comprise the industry seek to make the best commercial decisions possible within the constraints set up by governments (Park, 1979). The profits that accrue to MNCs do not necessarily enhance the public good in the same way revenue captured by government has the potential to do. Finally, in the realm of resource development, both government and industry share the common interest of promoting the most profitable long-run development of the resource and as such, there exists a "symbiotic, though by no means always friendly..." (Howlett and Rayner, 2001, p. 33) relationship between these two groups of actors.

1.4 Cases

As mature democracies, Alberta and Norway have similar levels of development and institutional characteristics. To highlight this point, this paper draws upon a political-economy typology[6] of oil producing/exporting states developed by Eifert, Gelb, and Tallroth (2002). The typology consists of three key groups: mature democracies, factual democracies, and

[5] These assumptions concerning the role of the state and the relationship with natural resources are representative of a democratic view that "sees natural resources as a free gift from nature that should be owned by and benefit the population as a whole" (Warnock, 2006, p. 27). Though redistributive mechanisms (which are not discussed in this paper) are clearly important, ensuring the maximum benefit from the development of natural resources necessarily entails capturing the highest possible amount of economic rent.

[6] Ragin (1987) emphasizes the importance of typologies for comparative analyses, stating "such empirical typologies are important because they set boundaries on comparability" (p. 20).

autocracies.[7] Countries and sub-national units classified as mature democracies are characterized by:

> ...relatively stable policies, underpinned by a broad social consensus. Politics is dominated by a few parties...The resulting policy regimes are generally based on transparent information; property rights are clear and a swing in government rarely leads to sweeping redistribution. Bureaucracies are competent and relatively insulated; professional judicial systems foster de-personalized functioning of markets and reasonable stability in rules. State investment tends to complement, rather than substitute for, private investment; independent risk-ratings are taken seriously as indicating the prospects for investors. (Eifert, Gelb, and Tallroth, 2002, pp. 5-6).

Stability, transparency, a competent bureaucracy and a strong rule of law form the building blocks of mature democracies. Without undertaking an in-depth examination it is clear that both Norway and Alberta fall into the 'mature democracies' category[8] and based on this criteria, represent ideal cases for comparison. Other indicators reveal high levels of similarity between the jurisdictions (Table 1).

Table 1 - Population and Industrial Indicators for Alberta and Norway

	Alberta	**Norway**
Population (2006)	3,290,350	4,610,820
GDP per capita (2002)	$32,233 (Cdn)	$35,955 (Cdn)
Oil and Natural Gas Production - barrels (oil equivalents) (2001)	1.485 billion	1.654 billion
Oil and Gas GDP, 1995-2002 (million 2000$)	17,067	50,163
Oil and Gas as a percentage of total GDP, 1995-2002 (2000$)	12%	19%

Source: Aneilski (2002); Taylor et al. (2004); CIA (2007); Government of Canada (2006)

A final point of comparison pertains to the nature of authority over natural resources in both jurisdictions. In Canada, it is the state that exercises authority over natural resources, both as proprietor and legislator (Tuohy, 1992). Provincial government powers over natural resources stem from Section 109 of the *Constitution Act, 1867*, which grants the provinces ownership of

[7] The groupings reflect a variety of qualitative distinctions including: the stability of the political framework and party systems, the degree of social consensus, the legitimization of state authority, and the role of political institutions (Eifert, Gelb, and Tallroth, 2002).

[8] In fact the authors explicitly mention both Alberta and Norway as prime examples of this category (Eifert, Gelb, and Tallroth, 2002).

lands within their borders (Cairns, 1992). Over time, provincial jurisdiction over natural resources has been strengthened via constitutional amendment, political practice, and decentralization. In short, Alberta is the landlord and exercises authority over the key dimensions of oil and gas development. In Norway, there has "never been any doubt about the ultimate ownership of the oil and gas discovered under the North Sea" (Lind and Mackay, 1980, p. 98). Royal Decree establishes both the state's authority over resources in the North Sea (1963) and the specific provisions guiding Norwegian policies (1972) (Lind and Mackay, 1980).

Having established the similarities between the cases, it is important to address a key difference. The obvious difference between Alberta and Norway is that one is a sub-national unit (a province) existing within a federation and the other is state. This difference is especially important in an analysis of oil and gas policy since Alberta's policy formulation has historically been greatly affected by its place within the Canadian political community and its relationship with Ottawa (Doern and Toner, 1985; Gibbins, 1992; Chastko, 2004). Albertan policy is often seen as a reflection of 'western alienation' and there is no doubt federal-provincial relations would have had an effect on early oil and gas policy (Gibbins, 1992).

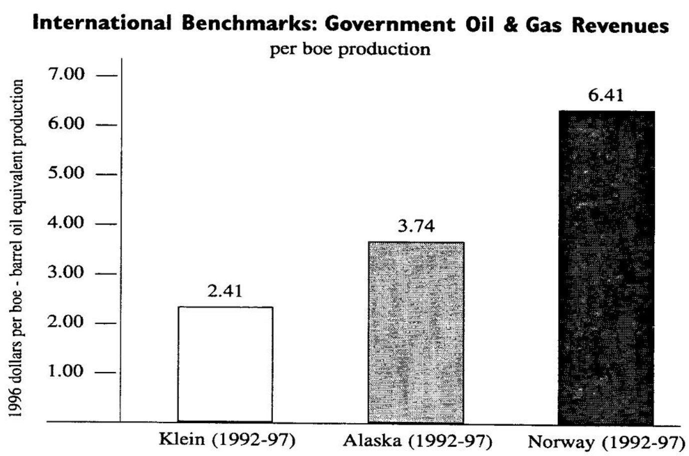
Beyond this, as a province Alberta lacks some of the responsibilities to its inhabitants that a developed welfare state has. For example, as a Scandinavian welfare state, many of Norway's economic policies are guided by the broader goal of providing universalistic and generous social policies to its citizens (Heidar, 2001). Despite these differences, there are enough similarities between the two to permit for an accurate comparison of like cases. Importantly, the differences between the cases (as argued later) are not only structural but cultural as well.

2 FRAMEWORK

This chapter details an organizational framework that establishes the link between early government policies and the variations in rent collection performance we observe today. There are a range of fiscal policy instruments a government can employ to extract revenue from the oil and gas sector (see Appendix A). Alberta relies almost entirely on royalties and taxes as the main instruments for obtaining revenue from oil and gas operations. For Norway, in addition to royalties and taxes, significant revenue is derived from direct ownership of resources, including the state's direct financial interest (SDFI) in the petroleum sector and dividends and the rise in asset value for the state's holdings in Statoil[9] (Parkland Institute, 1999; Taylor et al., 2004). The different approaches taken by Alberta and Norway toward oil and gas development are examined along two dimensions: 1) the level of royalties/taxes (high or low) and 2) state ownership/stake in operations (which can enhance the revenues of the state).

Figure 1 highlights the difference in rent collection performance between Alberta and Norway in the 1990s.

Figure 1 - Rent Collection Performance in Alberta and Norway (and Alaska), 1992-1997



Note: 'Klein' refers to Alberta.
Source: Parkland Institute, 1999, by permission.

9 Statoil is the popular abbreviation for *Den norske stats oljeselskap A/S* and was established as a wholly state-owned oil company in 1972 (Lind and Mackay, 1980).

Between 1992 and 1997, Norway collected about 2.7 times more economic rent than Alberta for every unit of oil and gas produced.[10] At the Norwegian rate, Alberta would have received roughly $5.7 billion in additional revenues each year over the same period (Parkland Institute, 1999). It is important to note that these figures include revenues generated not only by taxes and royalties but also (in the Norwegian case) the state's holdings in Statoil and the SDFI. Finally, because of the complexity of tax and royalty rate structures, which vary not only product-by-product (e.g. natural gas, conventional oil, etc.) but also project-by-project, this paper does not analyze exact differences in tax/royalty rates between Alberta and Norway since such analyses have already established that overall, Albertan rates are considerably lower than Norwegian (e.g. Alberta Royalty Review Panel, 2007).

So, why look at rent collection levels? The level of rent captured by the state acts as an important proxy for the general policy approach a state takes toward oil and gas development. Later it is argued that these policies were strongly shaped by a general conception of the state-capital relationship (political culture) in each respective jurisdiction. For the purposes of this paper, economic rent is important in as much as it represents a measurable variable through which to examine broader differences in policies. Other possible variables include the use of long-term savings funds derived from oil rents (Hannesson, 2001) or the existence of national oil companies (McPherson, 2003).

Finally, it is important to recognize that it is beyond the scope of this paper to detail the myriad acts, regulations, and legislation that comprise the current petroleum fiscal policy regimes for each case, let alone the numerous historical events and developments that have

[10] More recent data indicates that this rent collection gap between Alberta and Norway has continued to present day (e.g. Taylor et al., 2004; The Economist, 2007). This is important to note because data presented later in the paper covers the time period from 1995-2002 (as opposed to 1992-1997). The key point is that since the 1990s, the government share of oil and gas revenue in Norway has been consistently higher than in Alberta.

shaped these regimes. Rather, this chapter attempts to outline early policies using contemporary rent collection levels as an indicator of the outcomes of the divergent approaches. The crucial point is that in both cases the key components of the contemporary oil and gas regulatory regime were formed in the early years just prior to and immediately after the major discoveries and have remained stable over time.

2.1 Alberta

The basis of the province's contemporary oil and gas fiscal policy framework was largely established in the 1930s and in the aftermath of the Leduc discovery.[11] As Richards and Pratt (1979) explain:

> Most administrative precedents [for oil and gas] were established in the late 1930s and in the years immediately following Leduc, and until the Lougheed Conservatives came to power in the 1970s these precedents remained essentially intact (indeed many of them still remain). (p. 45)

Breen (1993) supports this conclusion, making reference to a series of bills passed in the two years following Leduc that constitute "the essential framework that would govern the shape of the province's contemporary petroleum industry" (p. 253). Thus, early policies have had an important and lasting effect on oil and gas development throughout the years.

Alberta's approach to oil and gas development consisted of promoting a rapid pace of development (by creating a favourable investment climate of which low royalties were one component) whilst avoiding public ownership. Although policies and legislation have changed since the Leduc discovery in 1947, the general approach has remained remarkably consistent and the multiple policies, Acts, and regulations reflecting the approach have stayed within the parameters of low provincial tax and royalty rates and an aversion to public ownership.

[11] In February 1947 Imperial Oil struck oil at Leduc #1. It was the largest discovery in Canada in 33 years and triggered a boom that would lead to the discovery of the bulk of Canada's oil reserves. Prior to the Leduc discovery, the province had been historically focussed on agriculture (Government of Canada, 2007).

One way that the province promoted investment in the oil and gas sector was to establish a low maximum royalty rate. In 1949 the Social Credit government passed the Mines and Minerals Act, which established petroleum and natural gas royalty rates. This Act committed the provincial government to an extremely low maximum royalty rate equal to 16.67% of gross production during the 21-year life of a lease (Breen, 1993; Emery and Kneebone, 2005). Today, the Mines and Minerals Act is the key piece of legislation governing the management and disposition of rights in Crown-owned minerals and Alberta continues to set low royalty rates compared to similar oil producing jurisdictions (Alberta Royalty Review Panel, 2007; Warnock, 2006).

Beyond low royalty rates, Alberta avoided the option of direct state development of the resource which (as the Norwegian example illustrates) can be an important tool for increasing state revenues. This is not to suggest that the state rejected all forms of involvement in the oil and gas industry. There are several examples of public-private enterprises through which the provincial government did engage directly in the industry, such as the Alberta Gas and Trunk Line (AGTL), but the fact remains that from the outset Alberta has eschewed public ownership as a means of deriving revenue from oil and gas activities. In doing so, Alberta effectively closed off a powerful tool for extracting higher revenues from (and maintaining more control over) the oil and gas industry.

2.2 Norway

In stark contrast to the Albertan approach, early Norwegian policies focussed on securing a high level of rent and ensuring a strong state role in the industry, including direct ownership and control. Like Alberta, most of the important decisions and policies that came to form the basis of Norway's contemporary oil and gas policy framework were made in the years prior to and immediately after the country's major oil discovery.

Norway became an oil nation in December 1969 when the Phillips Company announced the discovery of the Ekofisk field in the North Continental Shelf (NCS) (NPD, 2007). In 1971, the main policy guidelines that would dominate NCS development for the next 30 years were established in the Ten Oil Commandments[12] (Figure 2).

Figure 2 - Norway's Ten Oil Commandments

1) National management and control for all activities on the NCS
2) Make Norway independent of other regions of the oil supply
3) Establish new business activities with basis in petroleum
4) The development of the oil industry must be in accordance with already established industries and environmental aspects
5) Flaring of gas is in principle prohibited
6) Petroleum from the NCS should in principle be landed in Norway
7) State involvements on all levels in order to assure Norwegian interests and to promote establishment of a Norwegian industrial oil cluster
8) Estabish a state oil oil company to take care of the state commercial interests
9) Take care of the special conditions in the northern regions
10) The Norwegian petroleum discoveries is expected to create new challenges for the norwegian foreign policy

Source: Nystad (2006).

Though the fiscal framework was in place prior to the Phillips discovery, in the early 1970s the system was modified so as to provide the state with a greater share of economic rent. For example, a progressive schedule of royalty rates was established, licence fees were increased and later a Special tax base (originally set at 25% but now equal to a 50% rate) was introduced, all with the overarching goal of transferring higher levels of rent to the state (Lind and Mackay, 1980; Austvik, 2006). The tax and royalty system remains an important component of the broader fiscal policy framework for deriving rent from oil and gas activities.

In July 1972, a unanimous *Storting* (Norwegian parliament) resolved to establish the Norwegian Petroleum Directorate (NPD) and Statoil to take care of the administrative and business functions of oil and gas development respectively (NPD, 2004). Since its creation, the

[12] 'Ten Oil Commandments' is the popular term for a set of economic and ethical principles established by the government in 1971 to guide the use and exploitation of oil and gas for the benefit of current and future generations of Norwegians (Gylfason, 2008).

core functions of Statoil have been 1) to manage the state's equity interest in oil and gas licenses and pipelines and 2) to serve as a conduit for technology transfer and economic development. Until 1985 the state participated directly in oil and gas activities via Statoil, with the stipulation of 50% ownership by Statoil in all developed fields (Gordon and Stenvoll, 2007). In 1985 state participation was reorganized leading to the creation of the SDFI through which the state pays a share of all investments and operating costs in projects whilst receiving corresponding revenue from operations (Government of Norway, 2008). Today, dividends from Statoil and the SDFI are major sources of economic rent for the state, especially the latter.

Early Norwegian policies centred on securing high levels of rent and direct state participation in oil and gas activities. These policies appear to have stemmed from specific strategies toward oil and gas development which is typical of Norwegian policy formulation as it is often deductive in nature, whereby policy stems from broader goals and strategies (Andersen, 1993). Andersen (1993) summarizes the Norwegian policy approach to oil and gas development:

> Through the legislation and concession system the authorities wanted to secure a basis for more active government engagement if called for. The long-term goal was to achieve more control over day-to-day activities and to secure a lion's share of possible incomes. There was a strong concern with state sovereignty. (p. 63)

2.3 Summary

In sum, this chapter has detailed the divergent policies taken toward oil and gas development in the two cases. Policies were examined along two dimensions, the level of taxes/royalties and state participation/ownership. Two key conclusions arise from this analysis: 1) there is considerable variation between the two cases and 2) in both cases early policies came to form the basis of the contemporary fiscal policy regimes.

2.4 Explaining Policy Change

Though policies have remained stable over time in both the cases, this is not to suggest that there has been no change at all. It is to be expected that in a policy area as dynamic as oil and gas fiscal policy, and one which is influenced by both domestic and international determinants, policies will change and new directions may be taken. In fact, there are clear examples of policy changes in both cases that go against the general approaches outlined in this chapter.

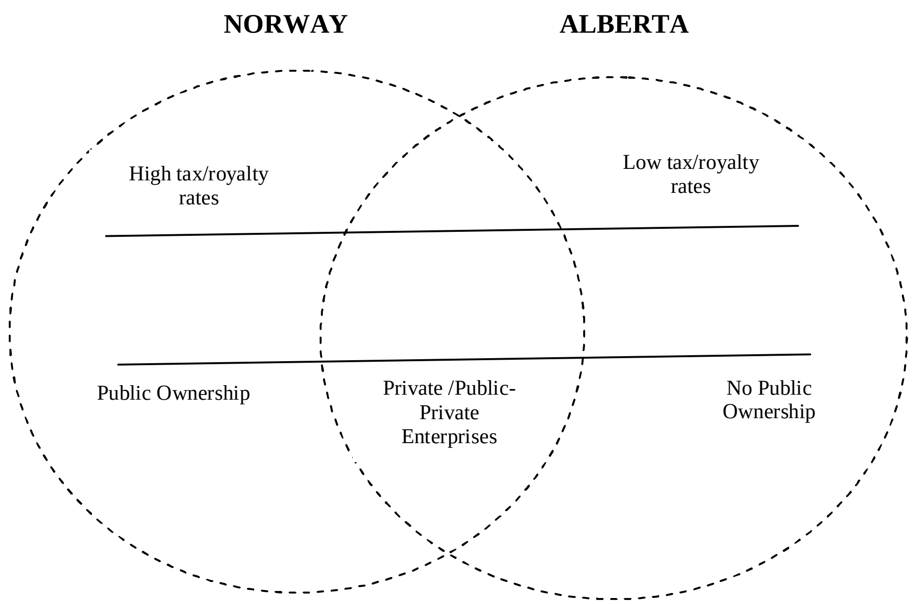
For example, in Alberta in the early 1970s the Conservative government enacted alterations to the tax/royalty structure, raising the rate for industry which allowed the government to capture higher levels of rent. This had the effect of raising the maximum royalty rate from 16.67% to a still low 23% (Doern and Toner, 1985). In terms of participation, in 1973 the same government created the Alberta Energy Co. which provided the government direct equity participation (Acuña, 2007).[13] Norway too has its examples of policy deviations from its general approach of public ownership and high tax/royalty rates. Recently the Labour government announced the privatization of Statoil, though the privatization is only partial (and has many stipulations to ensure a strong state role) and the state continues to derive vast revenues from the SDFI (Noreng, 2000).

Nevertheless, the point stands that even policy changes that represent a deviation from the norm remain within the broad parameters established in this chapter. For Alberta, this means that the province has historically avoided public ownership as a tool for increasing state revenues and has maintained comparatively lower tax and royalty rates as a means to attract foreign investment and capital. In Norway the state has favoured high tax and royalty rates, public

[13] It is important to note that unlike Statoil, the Alberta Energy Co. was not publicly owned. Shares were sold to Albertans and the government maintained a controlling interest. Also, the benefits of the Alberta Energy Co. were short lived as the government sold all of its shares in the 1990s (Acuña, 2007).

ownership and direct state participation, allowing it to capture one of the highest levels of rent of any developed country (The Economist, 2007). Figure 3 (below) outlines the parameters of the policy approaches taken in both cases. The argument here is not that policy has remained absolutely static but rather that the general approaches in each case have remained consistent over time and therefore must be accounted for when analyzing variation in contemporary rent collection performance.

Figure 3 - Parameters of Oil and Gas Policy for Alberta and Norway



3 ALTERNATIVE EXPLANATIONS

This chapter examines three alternative explanations for understanding the different policy trajectories taken toward oil and gas development in Alberta and Norway: resource differences approach, bargaining power explanation, and political institutional differences. Each is found to be insufficient as an explanatory variable but not altogether insignificant, especially the political institutional differences between the cases.

3.1 Resource Differences

Before examining the possible impact of independent variables on early government policies, it is first necessary to ensure that the divergent levels of rent collection performance observed in the 1990s are actually attributable to policy differences. The unique nature of oil and gas as natural resources dictates that differences in captured rent levels between Alberta and Norway are not necessarily related to differences in government policies. This is due to the fact that the amount of economic rent available for capture by a government is influenced by three factors:

1) the value of the oil and gas being produced (the higher the value of oil and gas, the higher the revenues governments can obtain)
2) the production costs (lower production costs allow more rent to be obtained)
3) government resource management and fiscal policies (Taylor et al., 2004)

Indeed, some experts have argued against the comparability of petroleum fiscal policy regimes between Alberta and Norway on the basis that the resource opportunities (and economics of exploitation and development) are fundamentally different (e.g. Alberta Royalty Review Panel, 2007). The resource differences explanation would attribute differences in rent collection across the jurisdictions to variations in the value of the resource being produced and/or the cost of producing that resource and not government policy. The above mentioned factors as used as criteria to test the resource differences explanation. This independent variable differs from the other two alternative explanations as it is applied specifically to the contemporary variations in rent collection performance (the proxy) and not early government policies (the true dependent variable). Nonetheless, it constitutes an important first step in order to establish whether the observed differences are the result of government policy (which is the basis of the framework presented in chapter 2).

To begin, we would expect the value of the oil and gas produced in Norway to be considerably higher given the higher levels of economic rent collected (Table 3).

Table 3 - Total Value of Oil and Gas Resources, 1995-2002 (2000$/BOE)

	1995	1996	1997	1998	1999	2000	2001	2002
Alberta	14.4	16.8	16.8	13.7	17.5	29.8	30.5	30.5
Norway	24.8	30.1	30.1	19.9	26.9	42.8	35.3	36.3

Source: Taylor et al. (2004).

Table 3 reveals that on average, the value of Norway's oil and gas resources was in fact higher than Alberta's, which would facilitate the Norwegian government in collecting a higher level of rent. However, the cost of production over the same time period was generally higher in Norway, leaving the government less available rent to capture and potentially balancing the effect of the higher resource value (Table 4).

Table 4 - Cost of Oil and Gas Production, 1995-2002 (2000$/BOE)

	1995	1996	1997	1998	1999	2000	2001	2002
Alberta	10.9	15.2	20.7	13.9	11.4	16.4	15.7	14.0
Norway	12.4	14.3	14.6	29.0	59.7	12.8	12.0	118.2

Source: Taylor et al. (2004).

In order to determine whether differences in rent collection levels are attributable to the differences highlighted in the above tables, Table 5 combines this information in the form of a calculated ratio of the value of oil and gas resources to the cost of oil and gas production for both jurisdictions. The higher the value of the number, the higher the available amount of rent for capture (Taylor et al., 2004).

Table 5 - Ratio of Value of Production to Cost of Production, 1995-2002 (2000$)

	1995	1996	1997	1998	1999	2000	2001	2002
Alberta	1.33	1.11	0.81	0.98	1.54	1.82	1.94	2.18
Norway	2.00	2.11	2.05	0.69	0.45	3.36	2.95	0.31

Source: Taylor et al. (2004).

Even though there were years when the amount of economic rent available for capture was higher in Alberta, Alberta's average portion of economic rent captured between 1995 and 2002 was 69% while Norway's was 88% (Taylor et al., 2004). Table 5 illustrates that differences in resource value or cost of production alone do not account for Norway capturing a higher level of rent than Alberta. Explicit policy actions are clearly an important factor when accounting for the divergent levels of rent collected. Having established that variations in contemporary rent collection levels are indeed attributable to government policies, the following explanations are applied to understand divergence in these early policies.

3.2 Bargaining Power

The idea that interactions between multinational corporations (MNCs) and national governments are characterized by a bargaining situation is a core concept in international business literature (e.g. Vernon, 1971; Moran, 1974; Grosse, 2005). The logic of the bargaining power explanation is that the outcomes of MNC-host government interactions reflect the relative bargaining power of the MNC over the government. Thus, MNCs with greater bargaining power are likely to obtain more favourable terms than MNCs with less bargaining power (Moon and Lado, 2000).

Returning to the cases, the previous chapter revealed that the early terms of access set in Alberta were more favourable to MNCs (e.g. lower tax/royalty rates, no state company to compete with, etc.) than was the case in Norway. The bargaining power explanation would suggest that the MNCs dealing with Alberta had greater bargaining power than the MNCs dealing with Norway. Differences in any or all of the following factors dominant throughout the bargaining power literature could affect the bargaining position of either MNCs or government: the relative resources of the bargaining firms, government dependence on private capital, government experience dealing with the industry, and the international price of oil.

Concerning the first, the nature of MNCs operating in the oil and gas industry has already been discussed. MNCs operate according to the same principle irrespective of the geographic location or political orientation of the jurisdiction within which they operate: maximize profits within the constraints set by governments (Park, 1979). Beyond this, there is no evidence to suggest that there was any difference between the firms operating in Alberta and those in Norway. In both cases the majority of investment and exploration was undertaken by the major fully-integrated oil companies (e.g. Exxon, Shell, BP, Mobil, etc.) with large partially-integrated companies, like Phillips Petroleum (in Norway) or Standard of Indiana (in Alberta) also playing an important role (Richards and Pratt, 1979; Park, 1979). The key point is that both Alberta and Norway interacted with large, vertically integrated foreign multinationals operating within the same industry and seeking to achieve the same goals.

Additionally, there are other important areas of similarity between the cases regarding the MNC-host government bargaining position that render a bargaining power explanation inadequate. For one, in both cases the government lacked the necessary public capital to develop the resource and therefore depended upon private (mostly foreign) capital (Emery and Kneebone, 2005). This dependence on private capital diminished government bargaining power in relation to MNCs in both cases. Another factor influencing the balance of power in MNC-host government relations is government experience (governments with experience dealing with a given industry are regarded as having more bargaining power versus those that lack experience). During the formative years in both Alberta and Norway, both governments lacked significant experience dealing with the industry (Andersen, 1993; Richards and Pratt, 1969; Noreng, 1980).

A final factor that must be addressed concerns the international price of oil which can greatly strengthen a government's bargaining position (by allowing a higher level of rent capture) when the price is high and likewise, weaken that same position when the price is low (Andersen, 1993). Again, there is almost no variation between the cases in terms of the world oil price during the formative years for Alberta (late 1940s-early 1950s) and Norway (late 1960s-early 1970s), with the price hovering around $20 per barrel[14] ("Oil - Business History"). It is important to emphasize that many of Norway's key policies (e.g. the creation of Statoil) came into place prior to the first oil crisis in 1973, which had the effect of doubling the real price of crude oil (EIA, 2002). Having analyzed the bargaining positions of industry and government, there is no evidence to suggest that the different policy approaches taken by Alberta and Norway were driven by differences in the bargaining power relationship between government and industry across the cases. It is now worthwhile to examine the political institutional setting within which government and industry interacted.

3.3 Political Institutions: Majoritarian versus Consensus Systems

As one of the key approaches to explaining why policies differ between advanced democracies, institutionalism emphasizes the role of state institutions and actors (Steinmo,

[14] Note: this price has been adjusted for inflation.

1989). It is widely recognized that the institutional characteristics of democracies tend to cluster around two main types: majoritarian and consensus democracy (Lijphart, 1984). Majoritarian and consensus systems differ with regard to several key variables, two important ones being the electoral system and the pattern of interest group interaction (pluralist or corporatist). Though analytically distinct, due to constraints this paper aggregates electoral system[15] and pattern of interest group interaction into a single variable. This is justifiable given the high degree of correlation established between these two variables (Lijphart and Crepaz, 1991).

Majoritarian systems are characterized by a disproportional electoral system, usually a single-member plurality (SMP or 'first-past-the-post') system, and a pluralist[16] interest group formation. Majoritarian, winner-take-all electoral systems produce clear winners and a high-degree of policymaking power is conferred to the winning party (Lizzeri and Persico, 2001). With few veto players, majoritarian systems facilitate a form of government more easily captured by the interests of industries provided that the party in power is generally supportive of the industry in question (Gourevitch and Shinn, 2005).

Consensus systems are defined by proportional electoral formulas (e.g. proportional representation or PR systems) and a corporatist[17] interest group formation (Lijphart, 1994). Consensus systems are usually associated with many parties (e.g. coalitions) influencing

[15] Electoral systems have been widely applied as an explanatory variable for understanding the design of fiscal and monetary policy (e.g. Persson and Tabellini, 2000; Drazen, 2000) and the quality of democracy (e.g. Anderson and Guillory, 1997; Lijphart, 1999). There is also a growing literature on the effects of the electoral formula on economic policies and outcomes (e.g. Iverson and Soskice, 2005).

[16] Schmitter (1979) describes the constituent units of a pluralist system as being "organized into an unspecified number of multiple, voluntary, competitive, nonhierarchically ordered and self-determined" (p. 15) categories not specially recognized by the state.

[17] This paper employs Schmitter's (1979) classic definition of corporatism as "a system of interest representation in which the constituent units are organized into a limited number of singular, compulsory, noncompetitive, hierarchically ordered and functionally differentiated categories, recognized or licensed (if not created) by the state" (p. 13).

policymaking, thereby integrating a wider range of opinion and producing more veto players. As a result, consensus systems are more likely to lead to a form of government that is not only less susceptible to capture by industry, but also more likely to integrate non-industry interests into the policymaking process.

Since Alberta and Norway represent prototype examples of majoritarian and consensus systems in terms of both key variables,[18] it is important to analyze the possible impact these differences may have had on the dependent variable. Immediately, one of the problems of employing such an explanation with regard to oil and gas policy specifically is that it is unclear from the literature what types of policy outcomes are expected to emerge from majoritarian or consensus systems. Nonetheless, having observed early policies that heavily favoured industry in Alberta, one can postulate that industry actors were able to capture government and successfully push their interests, a process facilitated by Alberta's majoritarian system. For Norway, having observed policies that were more balanced and far less favourable to industry, this could be attributed to its more balanced consensus system that may have prevented industry interests from dominating. Ostensibly then, early policies in both cases appear consistent with the outcomes expected based on each jurisdiction's system. However, strong counter evidence from two other jurisdictions, Denmark and Britain, suggests that the majoritarian-consensus divide between the cases is likely not the key variable when accounting for divergent policy trajectories.

International oil companies moved into the North Sea during the early 1960s and bargained with the various North Sea governments over terms of access to the resource. For this reason,

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[18] For empirical measures of corporatism/pluralism for Alberta (Canada is used as a proxy), Norway, Denmark, and the United Kingdom, this paper uses Siaroff's (1999) comparative ranking of neo-corporatism in 24 industrial democracies. Rankings are recalibrated on 1 to 5 scales, with 5 'always being strong corporatism' and 1 being 'pluralism'. The countries ranked: Canada (1), Denmark (4), Norway (5), and UK (1) (Siaroff, 1999).

the cases of Denmark and Britain are appropriate to consider as they faced the same initial situation as Norway and a similar situation to that of Alberta (e.g. MNCs bargaining with government for access to a newly discovered major resource reserve).

Looking to Denmark, it was the first state anywhere to put a PR system into operation (Elder, Thomas, and Arter, 1988) and it fits Lijphart's (1999) typology of a consensus state with a PR system. Interestingly, Denmark's initial approach to North Sea oil and gas development in the 1960s was closer to Alberta's than Norway's for "as it turned out, Denmark took an extreme laissez-faire attitude, leaving everything to a private corporation" (Andersen, 1993, p. 9). This approach was reinforced by a legal and regulatory framework that left development to private interests and provided little role for the state. Even more interesting is the fact that Denmark's approach, which provided extremely favourable terms to industry and eschewed public ownership, has remained consistent over the past thirty years. Despite its well established PR system, Denmark's policies were more aligned with those of Alberta than Norway, allowing for a minimal state role and providing monopoly control to a single private firm (the A.P. Møller consortium) (Andersen, 1993).

At the other end of the spectrum, Britain exemplifies the pure form of a majoritarian state with a SMP electoral system and a pluralist interest group form (Lijphart, 1999). Nevertheless, in Britain early North Sea oil and gas policies were more aligned with Norway's strongly statist approach than Denmark's (or Alberta's) less active approach, as "oil company pressures were offset by the government interest in securing positive effects for the national economy" (Andersen, 1993, p. 56). Like Norway, Britain used direct state participation and public ownership to increase government revenues and control, including the creation of the Gas

Council[19] in 1965 and the establishment of a state-owned oil company (British Petroleum) in 1975. Also like Norway, Britain developed a robust tax and royalty system to ensure the state benefited from oil and gas activities (Noreng, 1980). Thus, despite its majoritarian system, the British approach was much more closely aligned with Norwegian policies than Albertan.

3.4 Summary

In summation, it is argued that differences in the nature of the resource, the bargaining power relationships between government and industry, or the political institutional arrangements *alone* are insufficient for understanding the divergent policy trajectories taken by Alberta and Norway, but not that these differences were altogether unimportant. For example, in terms of the majoritarian-consensus divide between Alberta and Norway, the fishing industry in Norway is recognized as having had an impact on early oil and gas policy. Lind and Mackay (1980) summarize the role of fishing interests, stating: "the fishing industry has consistently provided a strong front against the oil industry, not by way of total opposition but by insisting that the interests of the fishing industry should be well protected" (pp. 141-142). Certainly Norway's consensus system served to facilitate the integration of fishing interests (and non-oil interests in general) into the policy process, likely shaping the overall approach to oil and gas development.[20]

[19] Later known as the British Gas Corporation (BGC), the BGC constituted a state monopoly over natural gas and was the primary mechanism used by the state to derive economic rent (Edwards, 1987).

[20] This seems to be reinforced in point four of the 'Ten Oil Commandments' which states: "The development of the oil industry must be in accordance with already established industries and environmental aspects" (Nystad, 2006).

4 POLITICAL CULTURE

For cultural analysts, the behaviour of officials and citizens is strongly affected by the political culture in which they operate and have been socialized by (Hall, 1986). This chapter highlights fundamental differences in key dimensions of political culture between Alberta and Norway and hypothesizes the manner in which such differences affected policy outputs. Emphasis is placed on how political culture dimensions can shape the motives of political actors ergo acting as a set of constraints. In this sense, political culture did not determine the policies that were adopted, but it did make certain options more desirable than others.

This chapter begins by operationalizing political culture as an explanatory variable and addressing some of its analytical shortcomings. Next, key dimensions of political culture are examined in Alberta and Norway. For each case this chapter details some of the origins and main dimensions of the political culture, the more specific conceptions of the state-capital relationship (including the role of the state in economic activities and attitudes towards foreign capital), and the way that political culture operated in each case to shape policy outcomes. Finally, the chapter concludes by discussing political culture as a causal variable and the implications of policy change over time for a political culture analysis.

4.1 Political Culture: What is it?

Political culture studies have experienced somewhat of a roller coaster ride since the first serious studies emerged in the 1960s. Inglehart (1988) notes that after flourishing in the 1960s (e.g. Almond and Verba, 1963; Verba, 1965) political culture has since come under attack as an explanatory variable. The shortcomings of cultural analyses are highlighted throughout the (predominantly institutionalist) literature (e.g. Hall, 1986; Steinmo, 1994). Then, beginning in the 1980s, political culture experienced a renaissance, receiving increased attention as a serious explanatory variable in political science (e.g. Inglehart, 1988).

This paper takes as a starting point the idea that “every political system is embedded in a particular pattern of orientation to political actions” (Almond, 1956, p. 396). Even though intra-culture variation can be substantial, “in any particular community there is a limited and distinct political culture which gives meaning, predictability, and form to the political process” (Pye, 1965, p. 7). For Verba (1965), “the political culture of a society consists of the system of empirical beliefs, expressive symbols, and values which defines the situation in which political action takes place. It provides the subjective orientation to politics” (p. 513). This can be augmented with Carr’s (2007) narrower definition where political culture refers to “values that regulate governmental activities and direct a shared and public understanding of the proper operation of the public realm” (p. 51). The view taken here is political culture as public shared meanings and therefore other factors like behaviours, institutions, and social structure are culturally constituted phenomena, but not culture itself (Spiro, 1984).

In working from these two definitions it is clear that political culture is still too broadly defined:

> If political culture is so generally defined, it is of little use to say that the political culture of nation X explains why it has political structures of the form Y. Rather one must specify what aspects of political culture - what beliefs about what subjects - are the important elements for explaining the operation of political systems (Verba, 1965, p. 518).

In this spirit, this paper is concerned with political culture as it constitutes a general conception of the state-capital relationship, particularly in the realm of resource development, in a given community. Later analysis focuses on two dimensions of this component of political culture: attitudes towards foreign capital and the role of the state in economic activities.

Having defined the variable, the questions remain: 1) where does political culture come from and 2) how does it operate as an explanatory variable? Concerning the former, later sections attempt to trace some of the sources of the state-capital relationship for each case. For the latter, it is predicted that the cultural assumptions that make up a political culture function as a negative selection mechanism that frames government strategy by limiting and prescribing certain options and ruling out others (Andersen, 1993). This resonates with Hayward's (1976) argument concerning "the operation of culturally-based dominant values that inhibit or preclude some kinds of government action and favour others" (p. 341). Since responses to political situations are shaped by subjective orientations, culture can serve to order political priorities and render certain options reasonable whilst removing otherwise reasonable alternatives (Laitin, 1986; Ross, 1997; Zimmerman, 1992). Pye (1965) usefully captures this function of political culture:

> For the individual the political culture provides controlling guidelines for effective political behaviour, and for the collectivity it gives a systematic structure of values and rational considerations which ensures coherence in the performance of institutions and organizations. (p. 7)

However, as discussed later, accurately assigning political culture this causal role is anything but straightforward and resultantly this chapter is primarily concerned with identifying the specific dimensions of political culture that relate to the divergent policies observed. Recognizing that correlation is not causation, this chapter hypothesizes motives act as an important intervening mechanism between political culture and policy outputs. The result is that political culture is put forth as an important but limited explanatory variable.

Political culture is often associated with similar concepts like ideology, norms, national character or ethos, political ideology, national political psychology, etc. (Pye, 1965). This paper employs political culture for the explicit reason that it encompasses the political orientations of both officials and citizens. Since no distinction is made between the culture of the masses and that of the power holders, political culture is a useful concept because it can be used to incorporate both groups. While there are certainly political culture differences between these two societal groups, a basic level of congruency between the two is presupposed.

Prior to any analysis it is essential to address some of the critical shortcomings of political culture as an explanatory variable. Two of the main critiques of political culture explanations are: 1) the concept is too broadly defined and 2) it is often presented as a static concept. Concerning the first, political culture seems to include everything (e.g. religion, values, national character, history, behaviour, etc.) and in this sense, is sometimes used as a kind of "grab bag" (Wiarda, 2007, p. 72). For this reason many scholars stress the need to define the variable in a clear and concise manner, ideally by specifying what dimensions the researcher intends to investigate.

For the second, Steinmo (1994) is critical of political culture on the basis that it is conceived of as being static even though values, attitudes, and culture change over time with experience. Many cultural analysts fail to in the very least acknowledge the dynamic nature of political culture. Any research effort employing political culture as an explanatory variable will need to address these shortcomings.

Finally, it is obvious that beliefs and attitudes in Alberta and Norway are neither perfectly homogenous nor easily captured in a few sweeping characteristics that define a political culture. Nonetheless the existence of cleavages (e.g. racial, ethnic, religious, etc.) in a society does not nullify the presence of more fundamental attitudes and behaviour patterns that can have important political consequences.

4.2 Albertan Political Culture

It is generally recognized that regionalism is a pervasive feature of Canadian society and politics (Bickerton, 1999). To this end, many have emphasized that the prairie provinces in general and Alberta in particular exhibit a unique political culture, distinct from other regions and provinces of the country (e.g. Norman, 1972; Gibbins, 1979; Simeon and Elkins, 1974; Alm and Taylor, 2003). For example, Simeon and Elkins (1974) reveal that beyond salient regional differences in terms of some basic orientations to political life (e.g. efficacy, trust, and involvement), there exists in Canada distinct regional political cultures.

Whilst there is obviously a diversity of views and orientations within any given jurisdiction, Alm and Taylor (2003) identify values such as rugged individualism, the free market, and a disdain for government (especially federal) interference as core components of Alberta's political culture. Gibbins (1979) paints a similar picture, describing the well established components of Albertan political culture as:

> A strong belief in the spirit if not necessarily the practice of free enterprise, a concomitant belief in the desirability if not the actuality of small, fiscally conservative governments, a tolerance if not affection for one-party government, and an intense commitment to provincial [as opposed to federal] control of energy resources. (p. 143)

The key components of Albertan political culture that emerge from the literature are: a strong belief in the spirit of free enterprise, a deeply rooted sentiment of western alienation and a related distrust of government. Working from these broader dimensions of political culture, the corresponding conception of the state-capital relationship is one of a limited[21] state role in economic activities complemented with an overall openness to foreign capital.

In terms of the origins of Albertan political culture, Norman (1972) explains:

> ...Alberta's political culture has its roots in the agrarian economy. Large, single-family owned and operated farms produced independent farmers whose goal in life was to get the best possible deal for themselves politically, socially and economically. (p. 30)

In spite of the populist nature of some of the farmers' movements in Alberta's past, Skogstad (1979) asserts that conservatism and independence are the more typical ideological mode of the agrarian base. It is recognized that the property-owning, independent nature of farmers cause their political orientations to be quite conservative, wary of any outside threat to their property

[21] Here, 'limited' means that the appropriate role of the government in resource extraction was widely viewed as creating a favourable investment climate (e.g. low royalty and tax rates) to encourage private (mostly foreign) firms to develop the resource whilst avoiding direct public ownership.

(Norman, 1972; Macpherson, 1962). Prior to the 1947 Leduc discovery, very little crude oil was produced in Alberta and agriculture was the major driving force of the provincial economy. The discovery acted as a catalyst for transformation of the entire provincial economy as it shifted from an agriculture to an agriculture-and-mining-based economy (House, p. 5).

But more than thirty years after this economic transformation began Gibbins (1979) recognizes that:

> Prairie society in general, and that of Alberta in particular, can be delineated by the attitudinal makeup of its residents...attitudinal features, however, remain, and we are left with a region of the mind, a nostalgic image of the beliefs and values of an earlier agrarian society...(p. 164)

While the beliefs and values of Albertans have undoubtedly changed over time, the agrarian roots of Albertan political culture run deep, reinforcing the commonly held view that political cultures are slow-changing entities (Ross, 1997).

An important dimension of Albertan political culture is the sentiment of western alienation[22] (Gilsdorf, 1979; Norrie, 1979; Gibbins, 1980), which centres on feelings of marginalization and alienation from the centres of economic and political power in central Canada (Jackson and Jackson, 2001). Gibbins (1980) most effectively summarizes the concept:

> Western alienation is best seen as a *political ideology of regional discontent*. By this I mean that western alienation embodies a socially shared set of interrelated beliefs with some degree of cultural embodiment and intellectual articulation, with a recognized history and constituency, and with recognized spokesmen and carriers of the creed...the ideological content of western alienation, of course, has not remained constant over time...yet at the same time there is great continuity with the past...(p. 169)

Though the ideological content of western alienation has likely changed over time, there has been a strong continuity with the past and the sentiment of western alienation has long been an important component of Albertan political culture. There is plenty of empirical evidence to reinforce the notion of western alienation as a general sentiment reflected in the attitudes and

[22] The concept of Western alienation is recognized as having a strong impact on many dimensions of provincial policy and is an aspect of Albertan society that is both structural (e.g. Alberta as a sub-national unit within a federation) and cultural (a sense of resentment amongst the populace). For an in-depth analysis of the concept of western alienation see Gibbins (1979), Gibbins (1980) or Gilsdorf (1979).

beliefs of a large component of the Albertan populace, not only historically (e.g. Gibbins, 1979; Gilsdorf, 1979) but into present day (e.g. Lawson, 2005). Gilsdorf (1979) employs a series of surveys to demonstrate "the sheer levels of resentments and incipient separatist tendencies that can be found in the province" (p. 168). Lawson (2005) takes a different approach and focuses on political alienation defined as "the alienation of citizens in western Canada from political representatives, processes of political decision-making, and institutions of representative government" (p. 128). The key point is that western alienation has been (and continues to be) an important component of Albertan political culture.

Closely intertwined with a sentiment of regional alienation is an overall lack of trust in government. 1968 survey evidence from Simeon and Elkins (1974) indicates that Albertans score low in terms of trust in government (both provincial and federal). This is reinforced by a more recent study by Pickup, Sayers, Knopff, and Archer (2004), in a study of social capital and civic community in Alberta, who show that Albertans' attitudes towards government (especially the federal government) are negative and that these attitudes have had important political implications. Amongst other things, this overall distrust of government can perhaps help us understand at least part of the puzzle as to why Alberta has historically rejected the option of public ownership as a means for developing its resources.

Richards and Pratt (1979) document two important phenomena in terms of Alberta's openness to foreign capital: 1) the extent to which policies favoured foreign over domestic capital and 2) the high degree of foreign ownership and investment in Alberta oil and gas activities. Gibbins (1979) uses survey data to demonstrate that western alienation, already established as being an important part of Albertan political culture, is in fact associated with a relative tolerance of American economic involvement. Therefore, general attitudes and perceptions are likely an important factor for understanding the province's fervent openness to foreign (specifically American) capital, or what Richards and Pratt (1979) term "the Americanization of the province's oil and natural gas resources" (p. 82).

4.2.1 Political Culture and Early Policies in Alberta

A wariness of active and direct public involvement in economic activities and openness to foreign capital stick out as two core dimensions of the conceived state-capital relationship in Alberta. There is evidence to suggest that the attitudes and beliefs comprising this particular conception of the state-capital relationship shaped and constrained the options considered reasonable by both officials and the public. For example, Gibbins (1979) draws the connection between the pervasive sentiment of western alienation and a corresponding openness to American economic involvement in Canadian borders in general (and Alberta in particular). A widespread scepticism and even cynicism towards Eastern capital and business interests fostered openness to foreign capital and an appreciation for the important role played by foreign investment.[23]

Alberta's openness to foreign capital, fostered by its strong sense of western alienation, led to oil and gas development policies that overwhelmingly focussed on creating a favourable investment climate for foreign capital rather than rent maximization or domestic control, for example. Low tax/royalty rates and a lack of domestic competition were important policy instruments for enticing foreign capital. Crucially, the high levels of investment in oil and gas activities from outside Canada have been identified as a key reason for the failure of the Alberta government to capture high levels of economic rent (Crommelin, 1975).

Beyond this, the province's conscious avoidance of direct participation through state-owned enterprises, which are the easiest means to capture economic rent, reflected a broader set

[23] For example, a survey by Gibbins (1979) found that 55.8% of respondents agree with the statement: "without foreign investment in the oil industry, Alberta would not have experienced the prosperity of the last few decades", whereas 24.3% disagreed.

of beliefs toward the appropriate role of government in economic activities (Warnock, 2006). Ernest C. Manning, who succeeded William Aberhart as premier of Alberta in 1943, bluntly captured the general sentiment towards the prospect of active government involvement through ownership, announcing to the legislature that "public ownership is bad in principle, worse in practice" (as cited in Richards and Pratt, 1979, p. 67). Given the fact that Albertans voted overwhelmingly for Manning[24], the overall rejection of public ownership went beyond the ideology of a single Premier or political party and was clearly rooted in a broader set of attitudes of the general public.

It has already been mentioned that governments have a range of fiscal policy options available for deriving rent from oil and gas activities. In reality, however:

> The full range of development options may not be considered. Ideological selection screens out certain alternatives, e.g. public ownership, and places government negotiators under a self-denying ordinance...(Richards and Pratt, 1979, p. 72).

In a similar manner Doern and Toner (1985) point to the example of the mixed public-private ownership of the AGTL (discussed earlier) as an ideological rejection of the idea of a crown corporation. What these authors term 'ideology' this paper has termed 'political culture', encompassing the beliefs and attitudes of not just the political parties in power at the time but also the general populace writ large.

4.3 Norwegian Political Culture

It is logical to trace the emergence of Norwegian culture and political culture to Norway's nation building phase, which effectively began in 1814 after 300 years of Danish dominance was broken and Norway achieved home rule (though full national independence was

[24] In August 1948, Manning and the Social Credit party gained 55.6% of the popular vote (the highest percentage achieved by any party in Alberta for forty years), taking 51 of the 57 seats in the legislature (Breen, 1993).

not achieved until 1905).[25] The period between 1814 and 1905 was marked by a conscious effort to build a unitary, mass-based culture (Heidar, 2001). Two of the defining dimensions of Norwegian culture are the deeply embedded principle of egalitarianism ('egalitarian individualism') and a well established sense of community. It is predicted that these two components of culture contributed to a state-capital relationship where an active role for the state in economic activities (e.g. public ownership) was legitimized and foreign capital was viewed with scepticism.

First, Norwegian culture has often been defined by the term "egalitarian individualism" (Gullestad, 1992; Eriksen, 1993), whereby equality and integrity of the individual are believed to be highly valued. A related concept is that of deep sense and desire for equality[26]:

> Equality is part of the Norwegian self-image. In cultural terms, this is often seen as a Nordic trait: 'the passion for equality.' Even within the Nordic area, Norway has a special history of strong egalitarian traditions...peasant society in Norway was traditionally highly egalitarian, both in terms of culture and economy - a characteristic that remains today. (Heidar, 2001, p. 167)

Most importantly, the idea of Norwegian egalitarianism is not just an abstract concept but has been proven to have inspired and justified a range of active government roles and policies including: legal provisions for equality between the genders, a progressive system of taxation and a highly subsidized rural sector, to name a few (Gullestad, 1992). One of the by-products of egalitarianism is that citizens are generally supportive of a broad range of governmental action in various areas, including industrial activities (Andreß and Heinen, 2001).

A related cornerstone of Norwegian political culture is the strong sense of community shared by Norwegians. According to Eckstein (1966), "Norwegians have a 'higher, overarching

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[25] This period of subjection to foreign rule is relevant for understanding contemporary Norwegian political culture as it has served to strengthen the role of the government as the "protector of national interests" (Andersen, 1993, p. 21).

[26] The English world equality is most commonly translated into the Norwegian word *likhet*, which means 'alikeness' or 'sameness' (Gullestad, 1992).

attitude of solidarity' in that they in fact display in many aspects of their behaviour a profound sense of community..." (p. 78). Moreover, though the Norwegian sense of community is predominantly political, the political sentiments and behaviour patterns that comprise it are expressive of much more general attitudes and modes of acting (Eckstein, 1966).

Both egalitarianism and a sense of community subsume notions about the mutual responsibilities between the state and the citizen, including the state's role in economic affairs as a means to provide for the Norwegian community and attitudes towards foreign capital. Though rooted in the past, both dimensions have withstood the test of time and are recognized as core components of contemporary Norwegian political culture which is reasonable given Norway's long history of stable representative rule (Eckstein, 1966).

In his discussion of the development of the central state tradition in Norway, Christensen (2003) emphasizes the pervasiveness (for both elites and the masses) of the core ideas of state-led economic development in Norwegian society. All phases of the development of the central state (beginning in 1814 through to present day) accord the government a legitimate and active role in economic affairs, amounting to "a regulated capitalist state where social justice was guaranteed by the state reallocation of collective goods" (Christensen, 2003, p. 168). Andersen (1993) draws on post-WWII examples of government engagement in hydro-power and large-scale industry sectors as but a few examples of Norway's tradition of regulation and state intervention in economic activities and how this approach was viewed as the most reasonable option for policymakers.

By the time significant oil and gas reserves were discovered in the North Sea in the 1960s, state control and involvement was common in numerous industries (Lind and Mackay, 1980). This form of state-led economic development is more than just an approach to industrial policy pursued through state institutions; it is representative of a much broader set of beliefs about the state-capital relationship and the role of the state in providing for the community.

Another fascinating dimension of the perceived state-capital relationship in Norway is the widespread scepticism toward foreign capital. Andersen (1993) describes relations between the state and large foreign companies in the realm of resource extraction as one of the few examples in Norwegian society where roles are assumed to be adversarial as "large foreign companies were viewed as adversaries that could not be trusted in the same way as national companies" (p. 26). Further evidence comes from Visher and Remøe (1984) who, in their examination of the conditions influencing early Norwegian oil and gas policies, stress that "a third condition that is more ideological in nature, but that also lies at the heart of the Norwegians' cautious courtship of the multi-nationals, was the widespread popular suspicion of *storkapital* (big capital)" (p. 326). Importantly, the scepticism towards foreign capital was not limited to the radical or ecological left, but came from a range of actors including established business and economic sectors (Noreng, 1980).

4.3.1 Political Culture and Early Policies in Norway

So, how do these dimensions of the state-capital relationship translate to policy outputs? Since policymakers and citizens share a basic conception of the appropriate role of the state in the economy and the role of foreign capital, policies that promoted an active state role and sought to restrain foreign capital would have been viewed as more desirable by policymakers. Put differently, leaving development of a resource intended to benefit the nation as a whole to only fully private enterprises (despite a history of active government engagement in industrial activities) and using low tax and royalty rates to encourage this development would have seemed unreasonable to any Norwegian policymaker. It is in this sense that political culture acted as a powerful set of constraints on the general trajectory of oil and gas development.

As evidence of the link between political culture dimensions and policy choices, Edwards (1987) notes:

> Norway has a strong tradition of nationalism, and consistent public mistrust of foreign capital made the creation of a state oil company a desired policy initiative as soon as North Sea petroleum potential became obvious. (p. 368)

The attitudes and beliefs comprising the general conception of the state-capital relationship made active state involvement (including public ownership and high tax/royalty rates) a desirable approach consistent with the views and attitudes of the public. Norwegian political culture did not dictate that Norway would create a state-owned oil company and seek high levels of rent from the oil and gas industry, but it framed decisions and actions in a manner that enhanced the desirability and feasibility of such an approach:

> The hegemony of social democratic ideas, including the legitimacy of a strong and active state, was undoubtedly a necessary precondition for the establishment of Statoil. Nationalism and a distrust of foreign monopoly capital in the electorate are two additional reasons why the state could and did push so far into the richest sector of the economy (Visher and Remøe, 1984, p. 337)

4.4 Political Culture as a Causal Mechanism

This chapter has thus far detailed some key dimensions of political culture for each case and linked these to particular conceptions of the state-capital relationship (Table 6).

Table 6 - Dimensions of the State-Capital Relationship in Alberta and Norway

	Alberta	**Norway**
Attitudes/beliefs towards foreign capital	Openness to foreign capital	Scepticism towards foreign capital
Role of the state in economic activities	Minimal state involvement; state involvement should only be for the purpose of promoting development of the resource by private capital	Interventionist; state should play an active role in economic activities to ensure Norwegian community benefits as a whole

Where this analysis falls short is in identifying the precise causal mechanism through which dimensions of political culture shape the choices made by policymakers. This is an important task since “one cannot assume a one-to-one relationship between political culture and the behavior of groups and elites engaged in the political process” (Lehman, 1972, p. 368). An effective analysis would likely require more advanced research methods, including interviews with elites and experts and time-series survey data. Lacking such available data, this paper will merely propose the likely mechanism at work. The purpose here is to entice debate and propose future avenues of research, not establish definitive conclusions.

The evidence examined suggests that political culture, namely the widely held beliefs and views relating to the appropriate role of the state in economic affairs and the role of foreign capital, served to shape the motives (as differentiated from interests)[27] of policymakers, making certain policy options more desirable than others. Berman (2001) explains:

> Political behavior is a product both of actors’ motivations, interests, and preferences and of the constraints and opportunities of their environment. Ideational analysis can contribute to understanding both. The growing insistence that motivations, interests, and preferences be analyzed and problematized rather than assumed or posited is one of the most important contributions that ideational scholarship has made. (p. 241)

Motives align with Wildavsky’s (1987) conception of preferences, which the author considers to be more analytically valuable than interests and are constituted by the encompassing political culture.

The differences between motives and interests are central to the differences between cultural and rational choice explanations. This analysis does not deny the potentially important role played by typical rational choice interests (e.g. economic gain), but instead suggests that they are only one of several factors influencing the actions and decisions of political actors (others may include belief systems, electoral incentives, macroeconomic conditions, etc.) (Ross,

[27] Here the paper adopts a classic rationalist definition of interests as material self interests (e.g. wealth or power maximization) whereas motives are much broader. In differentiating between interests and motives, Ross (1997) explains: “most basically, while interests are assumed to be more or less transparent (some would say) and universal, motives are knowable only through empirical analysis of particular cultural contexts” (p. 50). The author further stresses that the difference between interests and motives may be less important in intracultural analyses but is much more significant in cross-cultural analyses (Ross, 1997).

1997). The previous evidence pointed to political culture as a negative selection mechanism but clearly political culture alone cannot act as anything. Motives appear to be the vital intervening mechanism between the beliefs, values and attitudes of a political culture and the policies undertaken in a particular political system.

Through motives political culture serves to narrow the range of choices considered to be legitimate by policymakers while at the same time pulling them towards certain options over others. This is likely a combination of policymakers' internalized belief systems and their awareness of the general beliefs and attitudes of the electorate. For example, despite changes in political parties, macroeconomic conditions, and constellations of key actors in Alberta over the years, there has been almost no discussion about moving towards full public ownership as a means of enhancing state revenues. This appears to be consistent with the dominant dimensions of what this paper has described as political culture in Albertan society.

Similarly, in Norway there is no evidence to suggest that serious consideration has been given to the idea of abolishing the state's stake in Statoil or the SDFI. This is reasonable given that the hugely successful $400-billion (U.S.) Norwegian Petroleum Fund (established in 1996) now owns one percent of European stocks[28] (which is only possible due to the high levels of rent captured by the state) and is set to pay future health and pension expenses (Acher and Moskwa, 2008; Narvestad, 2004). Eliminating direct state involvement and/or reducing tax and royalty rates would not only be undesirable from a policymaker's point of view, but it would be in direct contrast to the widely held beliefs and attitudes regarding the state-capital relationship in Norwegian society.

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[28] This ownership is on average and in equities (Acher and Moskwa, 2008).

4.5 Policy Change and Cultural Continuity

For Berman (2001), "it seems nonsensical to talk about norms or culture that do not have staying power. Indeed, norms and culture should be thought of as ideas or beliefs that are institutionalized, persist over time, and, at least in the case of culture, are associated with particular communities" (p. 248). This paper has worked from the assumption that the various attitudes, beliefs, and values that comprise political culture in each case, though not static, possess some degree of durability and continuity such that sudden reversals or deviations from these core beliefs, attitudes, etc. are highly unlikely (Chilcote, 1994). For this reason, the most powerful evidence in favour of the importance of political culture in shaping early policies is the fact that in both cases the general approaches (measured along the two dimensions of state participation/ownership and levels of tax royalty rates) towards oil and gas development have remained remarkably stable over time (as established in chapter 2).[29]

In Alberta, the high levels of distrust toward government detected by Simeon and Elkins (1974) in the 1960s were found to be present in the 2000s by Pickup et al. (2004). Correspondingly, the same concerns raised by Crommelin (1975) over the province's poor performance in rent collection in the 1970s are echoed in the 2000s (e.g. Taylor et al., 2004; Alberta Royalty Review Panel, 2007; Warnock, 2006). More than thirty years after setting the low maximum royalty rate in the Mines and Minerals Act, Alberta established the oil sands generic royalty regime, recognized as being one of the lowest rates in the world (Council of

[29] As a caveat this paper concedes that this same evidence used in support of a political culture argument, namely the stability of government policies over time, could be equally powerful to support a path dependency explanation which focuses on the role of self reinforcing processes in making reversals from policy paths difficult and stresses the importance of beginnings (Pierson, 2004). Due to constraints path dependency is not analyzed as an explanatory variable, though it may help explain the durability of government policies in both cases over time.

Canadians, 2007) and partly responsible for the province's poor rent collection performance in oil and gas overall.

For Norway, the core dimensions of its broader culture that emerged during its nation building stage, namely egalitarianism and a sense of community, are recognized as being important aspects of contemporary Norwegian society thus standing the test of time. In terms of its oil and gas policy since the late 1960s, a report by Noreng (2004) concludes that there has been little change in policy over the past 30 years and the basic policy framework developed in the early 1970s (including taxes, royalties, etc.) has remained remarkably stable.

In short, the very fact that the approaches taken by Alberta and Norway have remained stable over time serves to reinforce the idea that political culture was an important force for shaping the initial policies. Put differently, had we observed radical departures from the early approaches to oil and gas development in either case, the power of a political culture argument in shaping early policies would most certainly be weakened.

5 CONCLUSION

In conclusion, this paper has analyzed the divergent policies taken toward oil and gas development in Alberta, Canada and Norway. The puzzle driving this research is the observed difference in rent collection performance between the two jurisdictions. In order to understand this difference, this paper detailed an organizational framework that linked these observed differences to early government policies. The central argument of the paper is that political culture is a particularly powerful variable for understanding the divergent policy approaches taken in Alberta and Norway as it acted as a set of constraints on policy options and shaped the motives of policymakers.

Chapter 3 outlined several alternative explanations. The resource differences explanation was employed first in order to determine that the observed differences in rent collection performance were in fact the result of government policies and not technical differences in either the cost of production or the value of the resource. This was a crucial first step as the entire analysis of this paper is based on the notion that variations in rent collection between the jurisdictions stem from different policies.

Next, the bargaining power explanation was proved to be unsatisfactory given the high degree of similarity between the cases with regard to the bargaining position of MNCs vis-à-vis government. The final alternative explanation pertained to political institutional differences between the cases, namely the majoritarian-consensus system divide. After establishing Alberta and Norway as clear cut cases of majoritarian and consensus systems respectively, counter evidence from Denmark and the UK was employed to illustrate that there is no inherent link between the political institutional arrangement and certain policy outputs. The analysis revealed that nearly identical political institutional arrangements can produce vastly different policies. Despite this, political institutional arrangements were not dismissed as entirely unimportant as it was acknowledged that they likely played an important role by either integrating or excluding non-oil interests, for example.

Unsatisfied with the alternative explanations, a political culture approach was detailed. After discussing political culture approaches in political science and some of its shortcomings as an analytical variable, political culture was defined as the general conception (encompassing attitudes, beliefs, and values) of the state-capital relationship, which includes the appropriate role of the state in economic affairs and the role of foreign capital. The analysis then linked core political cultural dimensions (e.g. western alienation, egalitarianism, etc.) to the conception of the state-capital relationship in each particular case. In doing so, the analysis overcame one of the major shortcomings of political culture analyses, namely the need to clearly identify what dimensions of political culture affect policy. By focusing on the state-capital relationship and even more specifically, the role of the state in economic affairs and attitudes towards foreign capital, we come closer to understanding what views and attitudes likely shaped the decisions of officials. Ross (1997) stresses that "in order to be useful, culture cannot be defined so broadly as to include all behaviours, beliefs, institutions...although it is appropriate to consider the cultural dimensions of specific domains" (p. 42).

At the same time, however, the precise causal mechanism linking political culture to policy outcomes was not definitively established. It was hypothesized that differences in the conception of the state-capital relationship influenced the motives of policymakers, making certain policy options more desirable than others. Motives, as differentiated from interests, are culturally constituted and are a particularly important explanatory mechanism in cross-cultural analyses. For this reason, political culture has been asserted to be an important, though limited, explanatory variable. Clearly, more work needs to be done to identify precisely how political culture influences political behaviour and policy outcomes.

Wiarda (2007) captures the essence of the political culture approach adopted in this paper:

> Obviously, when we study political culture, we are making a statement that we think values, beliefs, and ideas are important - not necessarily that they are the only or most important factor in explaining differences between political systems...but that political culture provides one important explanatory factor among several...(p.67)

It goes without saying that this paper did not examine all the possible explanations for understanding divergent policies and potentially important factors, such as political parties or the international context, were for the most part omitted. On top of this, political culture was shown to be limited in its explanatory power. However, to derive from this that political culture is not as useful as other approaches would be to throw the baby out with the bathwater. Research that ignores political culture dimensions closes off important avenues of theoretical and empirical insight that can be important for understanding divergent policy outcomes in cross-cultural analyses (Katzenstein, 1996). If anything, political culture analyses have an exciting and challenging research programme ahead, including taking the necessary steps to carefully define the dimensions and linkages to policy outcomes.

This paper began as an attempt to understand observed differences in rent collection performance, which soon turned into an investigation of the forces that shaped early government policies toward oil and gas development. The analysis has revealed important empirical and theoretical insights. For one, little is known about why policy outputs in general and oil and gas policies in particular differ across developed jurisdictions. Hopefully this paper has demonstrated that it may be worthwhile to focus on early policies in order to understand more recent observed differences between cases. Theoretically, this paper has further illuminated some of the strengths and weaknesses of political culture as an explanatory variable. As increasing importance is being placed on understanding the oil and gas fiscal policy arrangements in various jurisdictions around the world, properly identifying the underlying factors shaping those particular policy arrangements will be an important research task in the years to come.

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APPENDICES

Appendix A - Fiscal Instruments for Extracting Revenue from the Oil and Gas Sector

TAX/ROYALTY REGIMES - combines taxes and royalties and may involve three levies:	
Royalties	An attractive policy instrument for governments as revenue is received as soon as production commences. They ensure companies make a minimum payment for the minerals they extract. Typically either specific levies (based on volume) or ad valorem levies (based on value).
Income Tax	Levied on oil and gas companies as on all other companies. Many countries provide an incentive for exploration and development by allowing exploration costs to be recovered immediately and allowing accelerated recovery of development costs.
Resource Rent Tax (RRT)	A tax imposed only if the accumulated cash flow from a project is positive. It is usually combined with royalties and standard profit taxes.
PRODUCTION SHARING - the ownership of the resource remains with the state and the oil and gas company is contracted to extract and develop the resource in return for a share of the production.	
STATE EQUITY- government participates more directly by taking equity in a project. This can take many forms and may be motivated by a desire to share in any upside of a project or noneconomic interests such as nationalism.	
INDIRECT TAXES - Involves the imposition of indirect taxes which can take three forms:	
Import Duties	Provide an even more front-loaded source of revenue for governments. Duty exemptions are highly attractive to investors to improve project economics.
Value-added tax (VAT)	Many countries provide VAT exemptions for imported capital goods and sometimes imported inputs for oil and gas extraction.
Export Duties	Generally not levied on oil and gas with some exceptions (e.g. Russia).
OTHER NON-TAX PAYMENTS - These are often of lesser importance and may include licence, rental, or lease fees.	

Source: Sunley, Baunsgaard, and Simard (2003).