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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

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REPORT AND RECOMMENDATIONS  
OF THE  
PRESIDENT  
TO THE  
EXECUTIVE DIRECTORS  
ON A  
PROPOSED LOAN TO  
THE KINGDOM OF NORWAY

April 26, 1956

REPORT AND RECOMMENDATIONS OF THE PRESIDENT  
TO THE EXECUTIVE DIRECTORS ON  
A LOAN TO THE KINGDOM OF NORWAY

1. I submit the following report and recommendations on the application of the Kingdom of Norway for a loan of \$25 million.

Part I - Historical

2. The Bank has made two loans to Norway, each of \$25 million, one in 1954 and the other in 1955. The second loan was made in conjunction with an offering of \$15 million of bonds of the Kingdom of Norway by an underwriting group of investment firms and banks on the United States market. Both loans have been fully disbursed.

3. During discussions on these two loans, the Norwegian Government had expressed its intention of approaching the Bank at a later date for a loan for a power project. An invitation to send a mission for this purpose was extended by Mr. Arne Skaug, the Minister of Commerce and Shipping, during a visit to the Bank in June 1955. After the visit to Washington of Norwegian representatives in the fall of 1955, an operational mission went to Norway in January 1956 to investigate the possibility of a loan for the Tokke power project.

4. Having considered the mission's findings, the Bank invited the Norwegian Government in March 1956 to send a delegation to Washington to negotiate a loan. These negotiations took place during April and were conducted on behalf of the Norwegian Government by Mr. Christian Brinch, Secretary General of the Royal Norwegian Ministry of Commerce and Shipping, Dr. Fredrik Vogt, Director General of the Norwegian Watercourse and Electricity Board, and Mr. Eivind Eriksen, of the Bank of Norway.

Part II - Description of Proposed Loan

Borrower

5. The Borrower would be the Kingdom of Norway, a member of the Bank.

Amount

6. The amount would be \$25 million, or the equivalent in other currencies.

Purpose

7. The purpose of the loan is to assist in the financing of the Tokke hydroelectric project, described in Part III.

Terms

8. The loan would be for 20 years. It would be amortized by 31 semi-annual payments starting in August, 1961 and calculated to retire the loan by maturity in August, 1976. The loan would bear interest, including 1 percent commission, at the rate of 4-3/4 percent per annum. There would be a commitment charge of 3/4 percent per annum.

Disbursement

9. Over 90 percent of the cost of the project represents expenditure in Norway. The Bank would propose to disburse against imported goods to the extent practicable, but for the rest (and this would be the greater part) would have to disburse for local expenditure. Disbursements would be made as work proceeds, so that the whole loan would be fully disbursed in about five years.

Procurement

10. Under existing Norwegian Government regulations, contracts for supplies to be furnished and work to be done for the account of state agencies is offered for general competitive bidding, except in special circumstances, for example, when specialized equipment is involved. In cases where there is a choice between goods of foreign and domestic origin, it is the practice to give preference to domestic goods. The maximum preference applicable to the bulk of the equipment to be used on the Project would be 20 percent, including whatever import duty is payable.

Legal Instruments and Authority

11. There is attached a draft Loan Agreement between the Bank and the Kingdom of Norway (No. 1) and the report of the Committee provided for in Article III, Section 4(iii) of the Articles of Agreement of the Bank (No.2).

12. The Loan Agreement incorporates Loan Regulations No. 3 dated February 4, 1955, and follows the general pattern of the Bank's loan agreements in all important respects, except that:

- a) As in the previous loans to Norway, the so-called negative pledge has been modified to avoid constitutional problems arising from its application to political subdivisions and their agencies. If the Norwegian Government, for constitutional reasons, should be unable to make the negative pledge effective with respect to these political subdivisions and their agencies, it would grant to the Bank an equivalent lien satisfactory to the Bank. An exception to the negative pledge exempts certain liens given by political subdivisions and their agencies if the liens do not result in priority in the allocation or realization of foreign exchange (Section 5.03).

- b) The Loan Agreement would not become effective until the Bank had received satisfactory assurances as to the financing of the Project by and the sale of power to certain counties, municipalities, power companies and industrial users of power (Section 7.01).

Part III - The Project

13. A report on the project entitled "Tokke Hydroelectric Project - Norway" (T.O. 110 b) is attached (No. 3). The project consists of dams and tunnels in the upper reaches of the Tokke and Vinje rivers, in Southern Norway, to create reservoirs having a storage capacity of 1,220 million cubic meters, diversion dams in the Tokke and Vinje rivers, a 15 kilometer tunnel, an underground power plant in which four 100,000 kW high head Francis turbines will be installed, and transmission system. Annual generation will be about two billion kWh to be delivered to the southeastern Norwegian network, including the city of Oslo, and to be sold in bulk to distributing authorities and industry.

14. The project will be constructed and operated by Norges Vassdrags- og Elektrisitetsvesen (Norwegian Watercourse and Electricity Board), an agency of the Norwegian Government. The Board operates the Government-owned power plants, which now produce about one-fifth of all power generated in Norway.

15. The cost of the project is estimated to be N.Kr. 500 million (equivalent to about \$70 million). All the money required for the project would be appropriated for the Board in the annual Government budgets. In addition to the proceeds of the Bank loan which is equivalent to approximately N.Kr. 179 million, the Norwegian Government intends to obtain funds for the project by selling bonds to a number of counties, municipalities, power companies and industrial users of power in Southern Norway. The proceeds of the local issues cannot yet be determined but are expected to amount to at least N.Kr. 200 million. General Government revenues would make up the difference.

16. The cost per kilowatt installed will be equivalent to \$137 which is very low considering the storage it will provide. It is calculated that the energy will be generated for 1.2 øre (or 1.7 mills) per kWh.

17. The project will come into operation in stages. The first unit will come into operation by the end of 1961, and the fourth (and last) before the middle of 1963.

Part IV - Appraisal of the Loan

The Norwegian Economy

18. A report entitled "Current Economic Position and Prospects of Norway" (E.A. 59-a) dated April 18, 1956 is attached (No. 4). It brings up to date a basic review of the economy made on March 31, 1955 (E.A. 49-a).

19. Since the war, a high and persistent rate of investment has been maintained in Norway. Throughout the reconstruction and the further expansion of the country's economy, the government has generally attained its objectives to maintain full employment at all cost, to stimulate economic development by a cheap money policy and a high rate of investment, and to distribute income and wealth relatively evenly among all economic groups. Industrial production is now 94 percent above the level of 1938.

20. During the last three years, however, the Norwegian Government has come to the conclusion that the deficit on the balance of payments has been too high, and that investments should be directed more towards the export sectors which provide the additional foreign exchange needed to support a rising standard of living and to service new foreign debt.

21. Some measures were taken during 1954 to bring the deficit down to more manageable proportions. Heightened activity, however, increased inflationary pressures: investment, in maintaining demand at a high level, together with reduced import restrictions, resulted in a large foreign deficit and a drastic reduction of the foreign exchange reserves. More stringent measures were, therefore, taken in 1955, the spearhead being credit and financial policy. On the whole, internal balance has improved. Investment is still high, but its rate of growth seems to have been gradually falling off.

22. But more had to be done. During the current year, fiscal and credit policies have again been tightened; and in addition a further slowing down of credit expansion has been worked out by agreement between the government and the banks and insurance companies. The new government budget shows a current surplus, sufficient to cover capital expenditures and installments on state debt. A problem which still awaits a solution is that of credit expansion by the state banks.

#### Prospects for Repayment of the Loan

23. Norway has the resources for further development. An outstanding one is water power, which owing to the conformation of the land is naturally cheap to harness; only a fifth of the full potential has so far been used. Electricity is the basis for the electro-metallurgical and electro-chemical industries, which produce largely for export. Aluminum production is already expanding. Because aluminum is among the metals with the fastest-growing world demand and because in other countries available cheap power sites near deepwater ports are being used up, the prospects for Norwegian industry should be excellent. Projects which would more than double present capacity are receiving active consideration.

25. Norway should also maintain her share of a growing world merchant fleet. Norwegian shipowners have always shown ingenuity and initiative in adapting their fleet and their traffic to changing conditions; they are regarded as among the most efficient operators. However, as most Norwegian ships are engaged in cross-trade, their prospects are somewhat clouded by the tendency towards economic nationalism in the shipping business. But unless this tendency is carried to unreasonable lengths, it is unlikely to inflict serious damage on the Norwegian fleet.

26. Norway shares with numerous other countries the vulnerability to swings in world markets that goes with volatile export prices and a heavy dependence on foreign trade. The Norwegian economy has, however, continued to weather difficulties of this kind over a long period, though not always without some strain. The government has again shown its determination to carry out the adjustments dictated by the pressure of events. At the present time low foreign exchange reserves leave Norway with little room to maneuver, but there is no reason to expect any faltering from the excellent past record. Norway has always paid her obligations promptly.

The Dispute with French Holders of Certain Norwegian Bonds

27. In my Report and Recommendations on the two previous loans to Norway (P-66 and P-83), I referred to the long-standing dispute between the Norwegian Government and the Association Nationale des Porteurs Francais de Valeurs Mobilieres, representing holders of certain Norwegian bonds issued between 1885 and 1909. Since my second report, the French Government, espousing the claims of the French bondholders, has filed an application instituting proceedings before the International Court of Justice on July 5, 1955 and has submitted a memorial to the Court on December 20, 1955. On April 20, 1956, the Norwegian Government filed a counter-memorial. It is my understanding that this counter-memorial raises objections to the jurisdiction of the Court.

Part V - Compliance with Articles of Agreement

28. I am satisfied that the proposed loan complies with the Articles of Agreement of the Bank.

Part VI - Recommendations

29. I recommend that the Bank make a loan to the Kingdom of Norway in the amount of \$25 million, or the equivalent in currencies other than dollars, for a term of 20 years, with interest, including commission, at 4-3/4 percent per annum, and on such other terms as are specified in the form of Loan Agreement attached hereto, and that the Executive Directors adopt a Resolution to that effect in the form attached (No. 5).

Eugene R. Black

Washington, D. C.