

Hossein A. Kashani

**"A problem of incentive compatibility in the North Sea petroleum industry"**

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The principal-agent relationship between the governments of the UK and Norway, and the multinational oil companies active in the North Sea petroleum industry is, to some extent, different from a typical principal-agent interaction. For almost three decades, the major criterion for allowing a company to take part in the activity was its previous and planned contribution to the domestic economy by means of applying the highest possible domestic inputs. This study applies mathematical modeling to show that the authorities had the opportunity to offer an incentive scheme to persuade the oil companies to involve domestic suppliers at the governments' preferred level. Unlike a typical government regulatory framework, which aims to increase efficiency in terms of price and/or quality, the incentive compatible scheme discussed in this paper could, in certain circumstances, generate inefficiency in the daily operation of the oil and gas fields.