The final chapter for North Sea oil

Adam Ramsay

Scotland's oil should be left under the seabed

Mrs Gibb was good at teaching sums and times tables. As a result, pupils from my old school, Kilry Primary, tended to go onto high school better than average at arithmetic. From there, the next step was often a degree in engineering at Heriot Watt or Robert Gordon. And when I run into my old schoolmates these days, the most common career - for those who haven't stayed on their family farms - is one in the oil industry.

Kilry is a sheep, cattle and tatty farming community at the foot of the Angus Glens, whose economy these days is tied almost as much to the fate of the fossil fuels under the North Sea as to the fertility of the soil underfoot.

But in 2018 that's not a good place to be.

According to the trade body Oil and Gas UK, in 2014, with prices at around $100 a barrel, North Sea oil and gas employed 450,000 people. Now that oil is selling for around $50 a barrel, that number is estimated to be 300,000. And, despite a slight increase in production over the last couple of years, things are unlikely to improve much for North Sea workers in the future, either in the medium or long term.

This is partly because of the rise of alternative and/or cheaper sources of energy, whether renewables or fossil fuels. The explosion in US shale extraction means that the supply of oil is set to reach levels higher than global demand, which has increased relatively sluggishly: Obama pledged in 2008 that he would reduce America's dependence on 'the tyranny' of foreign oil, and he went on to do just that, bringing crisis to the House of Saud, and problems for my old classmates in Kilry. Meanwhile, in the fifteen years since my class left secondary school, global solar energy capacity has grown by 5700 per cent, while the price of solar panels continues to collapse. Electric cars are eating into fossil fuel demand, as more and more Western nations are looking to ban their petrol-powered siblings within a generation.

For a number of reasons, then - which include the actions of the Chinese government, the market signals sent by the Paris climate agreement, and the inevitable march towards the superabundance of renewable energy - for the first time since it began it seems possible that the fossil-fuel era could be succeeded by a different kind of energy economy.

The economic impacts in North East Scotland have been immediate. Aberdeen, until recently one of the most expensive corners of the UK, has seen house prices collapse. Unemployment in the town has soared. Queues at foodbanks are said to be growing. 2016 saw the first oil worker strike for a generation, as employers tried to cut wages by 30 per cent, and around 400 Unite and RMT members on eight Shell platforms voted almost unanimously to join the picket line.

Seen from the perspective of those hit by the crash, this is a catastrophe. How often has one industry in the UK faced six-figure job losses within the space of a couple of years? But in this article I want to explore a response that, while seeking to maintain a secure future for the people whose lives are being affected by these job losses, recognises that, from the wider point of view of the survival of the planet, leaving remaining North Sea oil under the seabed is the best option for everyone. There are some precedents for such a choice. In 2007, the Ecuadorian president Rafael Correa volunteered not to allow the extraction of oil from the Yasuni National Park if the international community were willing to pay his government half of the estimated value of the oil in the field - $3.6 billion. In other words, his small and impoverished country was offering to take on the loss of the other $3.6 billion in order to make their contribution to preventing dangerous climate breakdown. Unable to raise the money, however, he abandoned the scheme in 2013.

Despite this, Yasuni is a powerful story for the environmental movement, because it highlights a different way of looking at tackling carbon emissions.

Climate change in Scotland

Traditionally, governments understand that they are accountable for the climate-changing gases which rise up from the land mass over which they govern. And by this measure, the Scottish government is doing pretty well.

When the SNP first came to power in 2007, the then two Green MSPs agreed to vote for Alex Salmond as first minister on the condition that his government brought forward a climate change act, which included ambitious carbon reduction targets. In 2009, Holyrood unanimously passed some of the most ambitious carbon reduction targets in the world, pledging annual emission cuts of 3 per cent, a 42 per cent reduction on 1990 levels by 2020, and an 80 per cent reduction by 2050. Since then, there have been genuine cuts in emissions, and the SNP has stated that it is on course to meet its 2020 target (though Greens complain that there has been some tinkering with the way these things are counted).

The SNP administrations since 2007 can claim some genuine credit for the shift to a greener economy over the last decade. They set themselves a target of 50 per cent of electricity coming from renewable sources by 2015, and in fact achieved 59.4 per cent; and, as I write, it seems likely that the figure will be higher still for 2017. (These sorts of statistics aren't unusual in the rest of Europe, but they make England look positively filthy: travel from London to Edinburgh, and the simplest way to tell you've crossed the border is the appearance of wind farms.)

But some of this fall in carbon emissions is the result of deindustrialisation, rather than Scottish government policy. In 2014-15 alone, Scotland's manufacturing sector saw a reduction in GVA of £0.9 billion.[1] And this fall does not mean that emissions from manufactured goods bought in Scotland - or even emissions from which Scottish or British businesses profit - have disappeared. It simply means, in many cases, that these goods are now made in other countries, so that some of the emissions associated with goods consumed in Scotland are now counted elsewhere.

This illustrates the need to find ways of tackling climate change that go beyond each country focusing on reducing the climate-changing emissions rising up from its own national land mass, important though that undeniably is.

The bottom line solution

There are many other ways you could approach climate change accountability, but most of them require doing sums that are mighty hard.

One way would be to attempt to allocate responsibility based on who profits - but you would soon find that most money-trails these days lead back to the world's web of tax havens and secrecy areas.

You could, instead, allocate responsibility to corporations - and an attempt by the Carbon Majors Database to do exactly that has shown that just 100 companies have been responsible for 71 per cent of global emissions since 1988.[2] But while this is certainly a productive line of attack, it once again leaves us trying to hold to account bodies that are able, as someone else put it, to melt into air.

The more neoliberal corners of the climate movement sometimes attempt to resolve this conundrum by allocating responsibility to atomised individuals, encouraging each of us to calculate what they claim to be our personal carbon footprints. But this is a noxious piece of market-based propaganda that shifts blame from the powerful; encourages the Thatcherite idea that we change the world by changing what we buy; does untold damage to the environmental movement by blaming those it needs to mobilise; and completely ignores the basic economic principle of the Rebound Effect (known in its purest form as the Khazzoom-Brookes postulate): namely that the effect of one person buying less energy is to marginally reduce the price of energy, meaning that someone else will probably buy more.

And all of these options raise a number of other questions: whether to include deforestation (and if so, what date to start from); whether to include non-CO2 greenhouse gases; and, most importantly for my argument here, whether to count historical contributions to climate change as well as current annual emissions.

Rafael Correa's projected scheme in Ecuador highlighted a simpler way to look at the bottom-line question: its aim was to leave fossil fuel in the ground, and to ask for international support to pursue this approach. The question would then become - instead of each country measuring and reducing its locally generated emissions - how to decide which fuel deposits to leave in the ground.

This way of framing the problem was perhaps most effectively popularised by the environmental journalist Bill McKibben and the 350 movement of which he is a part. In a now famous *Rolling Stone* column in 2012, McKibben laid out some of the basic mathematics of climate change as they stood then: firstly, the maximum 'safe' level of warming from pre-industrial levels that could be allowed, which was 2 degrees Celsius;[3] secondly, the total amount of carbon dioxide that the world could afford to pour into the atmosphere to have a 'reasonable' chance of staying within the two degree temperature limit, which was 565 gigatons;[4] thirdly, the total amount of carbon in the known reserves of oil companies and oil-producing states (originally calculated by the group Carbon Tracker), which was 2,795 gigatons.

The logic of these figures was that, if the world wanted to keep to two degrees of warming, it should - at most - restrict itself to burning only a fifth of the coal, oil and gas that were known about in 2012 (and all this doesn't take into account how much we've failed to cut our emissions in the intervening years - nor how many new fossil fuel deposits have been discovered). Looked at this way, the question of how to avoid catastrophic climate breakdown is relatively simple: we have to decide which deposits to leave in the ground.

It is not enough simply to stop exploring for more oil - though the fact that some still talk about the possibility of opening up potential new fields on Scotland's Atlantic coast is terrifying. It is not enough to stop burning coal - though the closure of Scotland's last coal power station in 2016 marked a new era for the country that gave the world James Watt. Somewhere in the world, a government with major oil reserves must be willing to raise its hand and agree to stop them from being burnt.

Decision-making on oil reserves

There are a number of ways we - humanity - could decide which oil should be left in the ground.

We could do what we're doing now, and leave it to the market - which would mean the decision being based on the cost of extraction, and the geopolitical power of the different oil firms (as well as the power of the states which support them). But the reality is that the market will always choose to burn much more than the planet can afford.

I experienced a brutal demonstration of this reality during an oil industry event at the Paris climate talks in 2015, in the responses of a panel of representatives from Europe's biggest oil companies to my question about how they could honestly sign up to a two-degree temperature cap, given that their market capitalisations depended on the future saleable value of their oil and gas deposits, and limiting global temperatures to two degrees would require leaving most of these assets in the ground. As I pointed out, this would render these deposits - against which they all borrowed to invest - worthless: they would, to use the jargon, become 'stranded assets', leading to a dramatic change in their balance sheets, and the likelihood that many would go bankrupt.

All the panellists fluffed the question, arguing that they'd always had stranded assets - which is a little like someone who's always had a bit of an overdraft discovering that they are millions of pounds in the red, and responding by shrugging and saying 'I've always been in debt'.

I later approached Shell's head of climate change, who had been chairing the proceedings, and repeated my question, asking why none of them had been able to answer honestly. My friend caught his answer on her dictaphone:

> The presumption of your question is that the 2°C is a given. But I think that to answer the question, you have to … say this is not a given. And of course that immediately disenfranchises a lot of people, because that's the model … they're all discussing that over there … (gesturing towards the negotiating room).

In other words, while claiming to support the aims of the climate agreement, the oil super-majors know fine well that limiting global warming and preventing the huge loss of life which it entails would mean bankrupting them. And, even as they sat in the Paris conference centre claiming to support the aims of the talks, they knew that their firms would keep on merrily extracting, and pretending there was no contradiction.

Leaving it to the market to decide which reserves not to burn is, therefore, a huge mistake. Because the market will always find ways to get round any limits that governments try to impose.

Another way we could choose which reserves to leave in the ground would be to ask scientists to decide between them. Some fossils burn cleaner than others. Some are harder or riskier to extract. Some sit deep beneath untouched rainforests, while others lie in puddles just below the surface of deserts. All these factors are, of course, important. Each of them should certainly be taken into account - which means no more coal and certainly none of Canada's tar sands.

But it seems to me that one of the questions we should be asking ourselves in making these decisions relates to the more difficult issue of historical justice. Looked at in this way, there is a strong case for the UK to call a halt to its extraction habit. Per capita, the people of the UK are already historically responsible for more of the emissions in the atmosphere than those of any other country on earth apart from Luxemburg.[5] This is because the combination of empire and coal meant that the UK had the first of the fossil-fuelled industrial revolutions. In 1923, Britain had 59 per cent of the world coal market.[6] To this day, two of its three biggest companies are oil super-majors: BP, which started out (as Anglo-Persian oil) as the mechanism by which Britain's ruling class plundered Iran; and Shell, which began its life as the Netherlands' way of sucking combustible wealth from Sumatra.

These two corners of the UK's fossil legacy are fairly widely discussed (though not often within the context of considerations of historical justice). But North Sea oil is often missing from climate debate, and this surprises me, not least because it seems clear that North Sea oil should be Britain's Yasuni - that we should volunteer not to burn it. But it is also surprising given that North Sea oil has played such a key (though amazingly under-discussed) role in the UK's modern political history.

North Sea oil in British politics

Would Thatcher have succeeded in securing sufficient popular consent to deliver her neoliberal revolution if she hadn't been fortunate enough to step into Downing Street three short years after the Brent and Piper oil fields came on tap? The era that Tories like to call 'the Lawson boom' is more accurately described as 'the North Sea boom': in the mid-1980s, 10 per cent of government revenue came from North Sea oil, and that's before you consider the wider economic stimulus this new industry delivered.[7]

While Norway used the income from the oil boom to set up its famous pension fund - which now owns more than 1 per cent of the global economy - Thatcher and Lawson used the UK's for a different sort of innovation: they bought political consent. They were able to purchase public support with policies such as the heavily-subsidised sale of council houses, and at the same time they claimed credit for a boom that was in reality delivered by hard-hatted folk braving the sea-wet winds out east of Shetland.

For the generation of us born under Thatcher and trying to make sense of what happened, everything becomes much clearer once you understand that it all happened in the context of a British oil boom. Thatcherism then fits into a different frame: democracy dissolves in petrol. The more a government can raise revenue from oil wealth, the less that regime depends on taxing its citizens for income, and the less it needs to concern itself with democratic rights. As a 2013 meta-study by Anar K. Ahmadov found, there is 'a nontrivial negative association between oil and democracy across the globe'.[8] Whilst there are much more extreme examples of this effect - Saudi Arabia being the most obvious - it doesn't seem outlandish to ask if Thatcher's successful attacks on British democracy in the 1980s could be seen as a weak version of the same effect.

Yet when English socialists criticise Thatcher, you rarely hear the complaint that she squandered the country's oil wealth to buy short-term political support, or that the illusion of economic success was built not just on the City of London bubble, but also on a convenient fossil fuel find.

This is in part, perhaps, because the Labour Party has long shared with the Conservatives the fear that a deeper understanding of Scotland's oil wealth would boost the case for independence. Certainly, if oil is debated, it is usually in the context of Scotland's constitutional question: in 2014 those of us who are members of the independence-supporting Scottish Green Party became used to the suggestion when down South, 'but … isn't it all about oil?'. But though this question was infuriating, it certainly was based on a kernel of truth. Oil was indeed a key factor for many: my neighbour in Edinburgh voted Yes in 2014 because of rage at Westminster's mismanagement of the resource. And the suppression of the McCrone Report by the British government that commissioned it (because, based on North Sea oil income, it gave too favourable a picture of the economic prospects for an independent Scotland) is common knowledge among those who follow Scottish politics.[9]

But this is now, in many ways, a question for historical debate: the North Sea oil era is coming to an end. When I travelled up the east coast of Scotland in summer

2016, it was notable that each major inlet - the Firth of Forth, the Firth of Tay, the Cromarty Firth and Scappa Flow - was being used to shelter vast oil rigs, taken in from sea because the price of oil didn't justify the cost of running them. A fifth of the UK's oil once came through Sullom Voe in Shetland, from the Brent field, which produced fuel of such high quality that 'a barrel of Brent crude' became the global benchmark for pricing oil. By the time I was in Shetland, Shell had already announced that it was no longer economically viable to pump the field. Between 2011-12 and 2014-15, UK government revenue from oil fell from £11 billion to £2 billion.[10]

The response from the Treasury to all of this has been as you'd probably expect - and here you would think there would be plenty of room for contemporary debate. In his penultimate budget as Chancellor, George Osborne cut the Petroleum Revenue Tax (which is levied on oil and gas companies) from 50 per cent to 35 per cent. Subsequently the government's oil revenues fell again, to £151 million - its lowest real-terms level since 1971-2; and in his final budget Osborne abolished the tax altogether. The 2016-17 figures on government revenues from UK oil and gas production for the first time show a negative figure, at minus £316 million (though most estimates of total government subsidies to the oil industry are much higher).

Bear in mind that these tax cuts for producers of fossil fuels are happening during an era in which the UK government is slashing subsidies for renewable energy.

Among the beneficiaries of these huge tax cuts were a string of enormously wealthy fossil fuel companies, all of which had extracted vast profits from the North Sea in the preceding years. As Mika Minio-Paluello wrote in a 2016 report for the Scottish Green Party MSPs:

> Our calculations, based on UK government figures, show that between 2009 and 2014 when the oil price was high, companies generated huge profits from UK North Sea oil, with £48.7 billion in free cash flow. That averages as £9.7 billion per year. This more than offset the 2014 negative cashflow of £5.3 billion that the industry claimed as the argument for tax cuts. According to the Office for National Statistics, between 2008 and 2014 oil companies in the UK North Sea achieved an average rate of return of 33 per cent, compared to 10 per cent achieved by the rest of the UK economy (excluding the financial sector).

While it's not unusual for Tories to hand public money to profitable corporations, you might have expected some resistance from the parliamentary left to this huge give-away to some of the world's biggest and most polluting corporations. But, at the time, the only objection - from either Labour or the SNP - seemed to be that the government hadn't handed them enough.

As far as I have been able to ascertain, Kezia Dugdale, then leader of Scottish Labour, had nothing to say either about the tax-slash, or the need to keep oil under the sea bed. Instead her complaint was that 'what we needed to see from the Chancellor today was support to make sure that essential infrastructure such as platforms and pipelines are not decommissioned early' - in other words, she was demanding maximum extraction. SNP depute leader Stewart Hosie, though he complained about 'the lack of strategic direction', broadly welcomed the scheme.

Perhaps Labour and the SNP believed that the oil giants would use Osborne's tax breaks to keep on their employees, or maintain their wages. But that would have been based on a hopelessly naive understanding of how capitalism works. As the unions commented in 2016, oil companies had 'not passed on that relief to their workers, whose jobs are being slashed'.[11] Though there were a couple of people on the payroll who managed to do well that year: as his staff received their P45s and pay cuts, Shell's chief executive pocketed a chunk of the government's tax cut, increasing his salary from €5.1 million to €8.3 million - a 60 per cent pay rise.[12] And a £14 million pay deal for BP's chief executive the same year was only stopped by an unprecedented shareholder revolt, co-ordinated by the NGO ShareAction.

But, of course, the oil majors use most of this money for looking for profit elsewhere - and that means seeking new oil opportunities that the atmosphere cannot afford.

It is remarkable how little the left has to say about all this. Beyond Mika Minio-Paluello's report for the Scottish Greens, and the ongoing work that she and her colleagues have done at Platform, there has been remarkably little thought given to the practical question of what to do about the collapse of North Sea oil in an age of climate catastrophe. And even less consideration seems to have been given to the political-economic implications of the collapse. Just as North Sea Oil was ignored as a factor in its boom years, so it's being ignored as it sinks beneath the waves.

In fact, the only time that the North Sea oil industry seems to have impinged into UK political debate is when Grangemouth oil refinery workers went on strike in 2013, in defence of their vice convenor, who had been accused (on spurious grounds) of rigging the local Westminster Labour selection in Falkirk - this had the effect of triggering the changes to internal party democracy which ultimately allowed Jeremy Corbyn to win the leadership.

A just transition

Historically, there have been obvious reasons for this silence on North Sea oil. It provided good, well-paid jobs for thousands of people. The process of extracting it doesn't involve poisoning and displacing First Nation Canadians, or the Ogoni people, or cutting through virgin forests in Ecuador. The oil that comes out is relatively clean, and isn't propping up the House of Saud or Saddam Hussein.

These arguments had some logic to them. But the changing economics of oil - and the increasing urgency of the climate crisis - turn that rationale around. In reality, what debate there is now takes place between, on the one hand, those who support government intervention to deliver a just transition away from the oil to other good jobs while leaving much of it in the ground; and, on the other, those who call for the extraction of every last drop, and refuse to plan for what the workers might do next.

To put it another way, the more mathematically inclined children of Kilry (who these days go to school up the glen, in a new, Blair-era building called Isla Primary school) can no longer expect jobs for life in the North Sea. And so the question for them isn't about whether or not we get another ten years out of the oil fields: it is about what comes next.

But, as coal mining communities have discovered to their cost, such long-term planning is anathema to neoliberalism. The free-market approach is to suck as much wealth as possible from the North East of Scotland, and then to walk away, leaving the community to do the costly work of figuring out what should happen next.

Yet, if the UK is to take on its proportional share of refraining from extraction (leaving aside the issue of any calculation based on historical justice), that would mean quitting the North Sea within the next year or two.

In that context, there are growing murmurs about that old left-wing idea of a just transition, perhaps most notably from Friends of the Earth Scotland, who successfully pushed the Scottish government to pledge in its 2017 programme for government to establish a Just Transition Commission, 'to advise Scottish Ministers on adjusting to a more resource-efficient and sustainable economic model in a fair way which will help to tackle inequality and poverty, and promote a fair and inclusive jobs market'.[13] This was announced alongside another long-term Friends of the Earth Scotland demand - a national investment bank - which was then granted £340 million as a first tranche of capital in the December 2017 budget, and which will hopefully provide finance to help such a transition along its way.

These can be seen as key elements of the SNP's response to the rise of Corbynism, and should certainly be welcomed. But if such a radical change as the end of North Sea oil is to be managed successfully, it will need a much more radical response than a gentle tinkering by cautious social democrats. To this end, the Scottish Greens have proposed large-scale government intervention to create the jobs needed to secure the mass switch to a low-carbon economy. Specifically, they suggest taking a 30-60 per cent stake in the smaller companies that are now buying up the rights to remaining North Sea oil reserves as the super-majors move on.[14] This makes more sense when you remember that the state is already subsidising the industry, and, more importantly, it means that oilfield revenue can at first be used to finance the creation of alternatives, before being rapidly wound down.[15] Scotland, after all, has more renewable energy capacity per person than most countries, what with all its wind and waves (possession of Rockall gives Scotland a territorial claim to a huge chunk of the North Atlantic). But the market-driven model has proved itself a notably inefficient means of delivering this revolution.

The democratic processes required for such a switch will be difficult to deliver. Firstly there is the question of local organising: whereas coal miners inhabited geographical communities of solidarity, North Sea oil workers live - when they are onshore - all across the UK. However their unions have been successful in organising them, and must be given a key role in shaping the transition. Secondly, delivering such a strategy in Scotland always comes back to the same old question of whether Holyrood has the powers - without independence - to do what's needed. Does a just transition depend on intervention from an uninterested UK government?

The honest answer is that an increasingly powerful Scottish parliament could be doing more of this work than it currently does. And, with a minority SNP government relying on the Greens for power once more, and looking over their left shoulder to an increasingly confident Labour Party, perhaps Sturgeon will decide that the fate of her party is tied to those of North Sea oil workers: unless the SNP can deliver a rapid transition to the economy of the future, they will find themselves crashing to obscurity, much faster than they ever expected.

But perhaps it's a change that's coming in any case. When I go back home these days, many of the old agricultural families - people whose ancestors have mostly likely been planting crops and herding livestock since the Neolithic revolution - are making more money farming wind than sheep.

Adam Ramsay grew up on an upland farm on the Perthshire/Angus border and these days is editor of openDemocracyUK.

Notes

1. www.gov.scot/Topics/Statistics/Browse/Business/SABS/KeyFacts.

2. Carbon Majors Database, CDP Carbon Majors Report 2017.

3. This now widely accepted figure accepts the sacrifice of large swathes of continental Africa. Since the 2009 climate talks in Copenhagen, the slogan for the most vulnerable countries has been '1.5 to stay alive', and the Paris agreement included a commitment 'to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius'.

4. Though, as McKibben put it: '"Reasonable", in this case, means four chances in five, or somewhat worse odds than playing Russian roulette with a six-shooter'.

5. www.theguardian.com/environment/2011/apr/21/countries-responsible-climate-change.

6. www.economicshelp.org/blog/6498/uncategorized/the-decline-of-the-uk-coal-industry/.

7. www.theguardian.com/commentisfree/2013/apr/19/north-sea-oil-80s-boom.

8. Anar Ahmadov, 'Oil, Democracy, and Context: A Meta-Analysis', *Comparative Political Studies*, Vol 47, Issue 9, 2014.

9. www.oilofscotland.org/mccronereport.pdf.

10. www.gov.uk/government/statistics/government-revenues-from-uk-oil-and-gas-production--2.

11. http://platformlondon.org/2016/03/15/6-reasons-why-budget2016-really-really-shouldnt-subsidise-north-sea-oil-even-more/.

12. https://uk.reuters.com/article/uk-shell-ceo-pay/shells-ceo-van-beurden-total-pay-jumps-in-2016-idUKKBN16G0TQ.

13. www.gov.scot/Publications/2017/09/8468/8.

14. https://greens.scot/sites/default/files/Policy/Jobs_in_Scotland_New_Economy.pdf. As the report argues: 'It's standard for private oil companies to be minority shareholders, while operating the concessions. For example, Shell was the operator for the Kashagan field in Kazakhstan while owning 16.8 per cent; BP owns 50 per cent of the GUPCO joint venture in Egypt that it operates. In cases like this, standard international practice is for the private companies to cover, or 'carry' the costs of the state's share. By not directly participating in running oil operations, the UK or Scotland would not need to build up a fully-fledged national oil company.

15. The report argues that the UK should initially replicate the Norwegian model, through which the Norwegian state extracts about twice as much cash per barrel of oil as the British state.