

## Oiling the wheels

In the early days of lockdown we all marvelled at how we had collectively achieved an impressive 17% reduction in carbon emissions. We were also delighted with the fall in petrol and diesel prices to somewhere in the region of £1/litre as a result of the collapse in global demand.

I live near the Cromarty Firth and received a leaflet today from the Cromarty Firth Port Authority which explained that this lack of demand had resulted in far more oil and gas rigs anchoring in the Cromarty Firth. Given that the renewable energy sector has been expanding rapidly, electric car sales are rising fast and domestic energy markets are about to undergo a fundamental transformation many of these rigs may not see active service again.

So what will happen to them?

At present all rigs must be decommissioned at the end of life. This is a very expensive process with total estimated costs in the North Sea of around £50 billion. It seems that as things stand the tax payer will cough up approximately half of this in the form of tax refunds and offsets<sup>i</sup>. Sadly this is only the tip of a very large iceberg.

A 2019 report by the EU Commission found that the UK government gives €12 billion in subsidies to oil and gas annually, far in excess of the €8.3 billion spent on renewable energy and a far greater sum than any other EU nation<sup>ii</sup>. To put this in perspective Germany spends €27 billion on renewables and only €9.5 billion on fossil fuels.

In addition to handing money out to some of the world's largest, most polluting companies, we also choose not to tax them. According to a 2019 report by Friends of the Earth and others, from 2015-2017 10 oil companies not only paid no UK tax, but also received over £2 billion in government subsidies.<sup>iii</sup> Moreover a 2020 report published by Platform shows that historically we have consistently used lower effective tax ratios on North Sea oil and gas companies than other countries with an interest in North Sea oil extraction like Norway, Denmark and Holland.<sup>iv</sup>

The comparison with Norway is particularly pertinent. If we had used Norwegian tax ratios the UK would have recovered an additional £250 billion between 2002 and 2015. Since North Sea oil came on stream Norway and the UK have extracted 43 and 48 billion barrels respectively. Norway created an oil fund worth over \$1 trillion from the tax proceeds.<sup>v</sup> Known as the Government Pension Fund Global it now holds approximately 1.5% of all the shares in the world's listed companies and makes an annual contribution of almost 20% to the Norwegian government's budget from the revenue these investments generate.<sup>vi</sup>

Meanwhile, in Britain we declined to set up any such fund, opting instead to channel much of the financial windfall of North Sea oil profits into tax breaks and government funding for the oil and gas companies and their wealthy shareholders.

Norway is a small country with a population similar to Scotland's. Scotland has never had a direct say in the taxation of North Sea oil revenues.

To return to the decommissioning of unwanted oil rigs, in 2016 the George Osborne (aka the Asbo) zero rated the Petroleum Revenue Tax. Because this meant oil companies would no longer pay the tax he could have abolished it, but by zero rating it he contrived to eliminate their tax liability while still allowing them to retain the right to claim rebates to cover the cost of de-commissioning. According to the Office of Budget Responsibility this will cost the UK government at least £500 million a year between 2016 and 2022.<sup>vii</sup>

*Res ipsa loquitur*

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<sup>i</sup> <https://www.theguardian.com/commentisfree/2019/apr/30/taxpayers-subsidising-oil-gas-companies-jeopardise-future>

<sup>ii</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=COM:2019:1:FIN&from=EN>

<sup>iii</sup> <https://platformlondon.org/2019/05/15/north-sea-oil-climate-emergency-jobs/>

<sup>iv</sup> <https://assets.documentcloud.org/documents/6774634/Northsea-Neoliberal-Experiment-Final.pdf>

<sup>v</sup> <https://theferret.scot/north-sea-oil-250-billion-tax-break/>

<sup>vi</sup> <https://www.nbim.no/en/the-fund/about-the-fund/>

<sup>vii</sup> <https://theferret.scot/north-sea-oil-250-billion-tax-break/>