

The gleeful messengers of Scottish oil doom



Analysis by Mike Danson

Oil is important to the global, UK and Scottish economies, driving the system, traded across the world and also a prime cause of climate change.

It should be no surprise therefore that prices and production are influenced by more than simple forces of supply and demand.

Not for the first time since 1970, the current manipulation of the world market is clearly evident with significant exploitation of shale deposits, the political consequences of the troubles in Ukraine and several other factors being identified as the causes of the recent falls in oil prices.

Inevitably these are having impacts on Scotland – some negative, some positive.

During the independence referendum campaign, much was written about the future prices, production and reserves of oil and gas in Scottish waters; but, critically, no one was forecasting prices of \$60 per barrel for Brent crude by autumn 2014.

Many of those experts issuing gloomy forecasts for the medium and long term prospects for oil have been caught out by these developments; they also missed the onset of the global financial and economic crises, even when the recession was upon us.

The siren rush to offer gleeful messages of doom for Scotland, couched in terms of 'we told you so' rhetoric, is unhelpful to those in the sector facing serious uncertainty. It lacks also the level of analysis required to help us all to understand the impacts, threats and opportunities that these price changes may bring.

Most of the warnings and ridicule are based on the forecasts of the OBR (Office of Budget Responsibility) – ironic, as the same commentators were criticising that body's Autumn Statement's forecasts for the UK deficit and debt only recently. So caution is required in interpreting and understanding their interventions in these times.

Similarly, while the media have been quick to highlight the calls for urgent measures to support the industry from imminent collapse, again some critical analysis of who is making these demands and why might be expected rather than prominence and privileging of their voices over more sober reflections.

Has nothing been learnt from the experiences with the banks and finance sector in the years leading up to the 2008 crisis?

There will be a range of impacts, some of which will be felt most strongly in Scotland, and particularly in the North East, while others will be affected by subsequent changes in public finances. We can expect three main forms of impacts: directly on the real economy and jobs; indirectly on public revenues; and thirdly on the arguments for independence.

In recent times, there have been reports of on-going skill shortages and an overheating economy around Aberdeen and other oil-related areas. That suggests that some of the downturn can be absorbed by these economies without great pain.

Exploration and production companies will react to falling oil prices by reconsidering current levels of activity and probably cutting back on investment.

These decisions will depend on what individual contractual obligations they have entered into, their ease and costs of abandoning current work and their analysis of how long prices will stay low. If they expect these recent falls to be temporary, then postponement rather than cancellation of new drilling and exploration projects would be favoured; if the consensus is for a more prolonged period of lower prices then a more structured readjustment would follow.

As with any structural shock to the economy, there will be difficult times for some, but opportunities for others. Reduced activity in the North Sea industry will undoubtedly lead to job losses, especially amongst sub-contractors, and some temporary lay-offs.

However, reduced hiring will be a key element in overall changes so that redundancies will be relatively less important. Some of the skills and expertise released by reductions offshore will then be available for other areas of the economy undergoing growth, for example the renewables sector, which is expanding. So lower payments for (sub-)contractors and fewer direct staff will be only part of the story and the net effects markedly less than has been threatened in the media and some political quarters.

Many of the initial direct impacts will be in the North East but these will spill over into other areas: fewer will be going off-shore from Fife, Clydeside and elsewhere, house price and rent inflation in the region will slow down – making homes more affordable, and suppliers of services and goods will be affected.

Overall, however, we should not be exaggerating the impacts on labour markets as the highest estimates are for 35,000 fewer jobs in the sector spread across the UK. Some closely involved in the industry have been arguing that adjustments to contracts and attention to expanding apprenticeships and training was overdue and this is an opportunity to address these, much as happened in the 1980s.

On the other side, there should be positive economic impacts with pressure to reduce household energy bills – leading to falls in fuel poverty and lower costs for food suppliers, drivers and others. Some of these will require affirmative actions by UK Government, for example a ‘freeze on energy prices’ is insufficient as a promise at a time when they should be falling.

Despite these obvious effects on the Scottish and UK economies, much of the attention of economic commentators has been directed at the implications for the public finances and for the potential budget of an independent Scotland in particular.

Some of these analyses have been offered by those who were warning of a petro-currency just a while ago: oil revenues would a curse, apparently. Almost all fail to

contrast the capacity of Norway to deal with this period of lower oil prices with the situation here: their sovereign oil fund would allow them to maintain their current national wealth in perpetuity.

What should have been established here was directed instead to building up the wealth of the rich and powerful (see the latest reports from the ONS on wealth and well-being).

In the referendum campaign, revenues from North Sea oil were repeatedly seen as additional to Scotland's rich and diversified economic potential; Scotland would become independent with no worse a deficit than the rUK nor of much of Europe, according to the Financial Times and others. The people of Scotland and the plans of independence parties were not based on flows of bounty coming from under the sea, but rather on realising that potential over the next decade or more.

Those who now offer gloom and dependency with such apparent relish are characteristically conservative – they say any currency but the present arrangements with the UK would be detrimental and highly costly, our deficit would rise inevitably or there would be further massive cuts in services, higher taxes, or both.

They offer no alternative to the current grossly unequal, de-industrialised, poverty-stricken economy of Scotland within the UK. Looking around to our close neighbours, including all those in the 'arc of prosperity', shows that small nations are more resilient in such times of change.

By contrast, the slogan of "better together" will be tested in the North East now, and found to be wanting, as London fails to fine tune its macroeconomic strategy lest it undermine the hegemony of the rich and powerful.

A deeper analysis and understanding of the impacts of falling oil prices is essential if we are to manage the threats and seize the opportunities. London cannot deliver on this agenda.

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