Oil slump triggers North Sea crisis

Steve James
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The slump in the price of oil is a powerful symptom of capitalist breakdown. To protect market share during declining demand, the Organisation of Petroleum Exporting Countries (OPEC), the cartel of oil producing countries who together produce around 40 percent of global oil supplies, has agreed to maintain current production levels.

Demand for OPEC oil in 2015 is anticipated to be about 28.8 million barrels per day (bpd), compared with a production figure of 30 million bpd. As a result, there is a growing surplus of oil on the world market and prices are collapsing. Oil is selling for well under $50 a barrel, less than half the price six months ago.

Saudi Arabian officials, representing the most powerful OPEC country, have stated they will not cut production regardless of price “be it $40, $30, or $20 per barrel.” A former Saudi oil minister, Mohammed al-Sabban, boasted that the country could sustain low prices for “at least eight years ... to see those marginal producers move out of the market.”

The price collapse has made a host of projects and oil fields unviable. Shell has abandoned plans to build a huge petrochemical plant in Qatar, the Al Karaana project. Premier Oil is expected to postpone the $2 billion Sea Lion project off the Malvinas/Falkland Islands and the Beam project in the Norwegian North Sea. Statoil has given up exploration licenses in Greenland, one of the most expensive exploration zones, while Canada Natural Resources is cutting capital spending by about 25 percent. Exploration rig hire charges have fallen 25 percent. In total, Goldman Sachs reckoned, $930 billion of projects could be shelved.

One of the most exposed regions is the British sector of the North Sea. Production, which began in the 1970s, has been in decline since 1999, with a sharp slump following 2010. New discoveries tend, year by year, to be smaller, in deeper water, with more complex extraction. While new techniques have raised the percentage of recoverable oil, this is ever more costly. With oil at over $100 a barrel, advanced methods still allow huge profits to be recouped. At below $50, few North Sea fields, currently the most expensive offshore locations in the world, are profitable. By contrast, production in Saudi Arabia costs less than $10 a barrel.

An extended price slump poses an existential threat to much of the British North Sea-based industry, as exploration of smaller, deeper fields becomes unviable and existing fields run dry. In December, Robin Allan of the oil industry explorers’ association Brindex, told the BBC that North Sea exploration was “close to collapse.” Allan, a director of Premier Oil, complained that even at $60 a barrel, exploration was unprofitable.

The slump destroys the Scottish National Party’s (SNP) mendacious perspective of an independent capitalist Scotland, so awash in oil revenue that the austerity policies imposed by the British and Scottish governments since the initial financial breakdown of 2008 could be reversed. At current prices, according to the British government’s Office for Budget Responsibility, tax revenues accruing from oil annually would be as little as £1.25 billion, in contrast to the SNP’s forecasts of some £6.9 billion.

The 2014 referendum on Scottish independence featured repeated spats over the amount of oil revenue that would come Edinburgh’s way in the event of a “Yes” vote. The SNP, leading the “Yes” campaign with the assistance of the pseudo-left groups, bombarded working class areas with promises that families would be thousands of pounds richer.

With the vote safely over and prices plummeting, SNP Energy Minister Fergus Ewing complained that the threat to the oil industry was creating “the most serious jobs situation Scotland has faced in living memory.”

Labour’s new leader in Scotland, Jim Murphy,

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agreed, warning, "The oil crisis is the biggest threat to jobs in Scotland since Ravenscraig." The 1992 closure of the Ravenscraig steelworks indirectly cost up to 10,000 jobs. In Aberdeen, 13 percent of all jobs are oil-related and the northeast of England hosts a number of production sites, but oil-related jobs are scattered across the UK. In total, estimates of oil-related jobs in the UK run as high as 450,000. Of these, 35,000 are said to be imperiled, including 16,000 in Scotland.

In response, and seeking to defend the industry's profit margins, the British and Scottish governments, in league with the oil corporations, are pursuing three angles.

Firstly, every party is calling for a sharp reduction on the level of corporation tax paid from oil production. The benchmark figure has been set by the industry lobby group Oil & Gas UK, whose boss, Malcolm Webb, wants the top rate of North Sea tax cut from 80 percent to 30 percent. There is cross-party agreement that a supplementary tax rate should be cut by around 10 percent. The SNP, led by newly-installed Scottish First Minister Nicola Sturgeon, is calling for tax cuts immediately, without waiting for the British Chancellor George Osborne's next budget in March.

Secondly, there is all-party support for the implementation of the Wood Review. Ian Wood, billionaire and retired founder of the oil services Wood Group PSN, was hired to report on the options to maximise the life of oil fields in the UK's continental shelf. Wood's review warned that the "light touch" regulation of the early years of North Sea exploitation—for "light touch", read dangerous scramble—had led to a situation where there are now over 300 oil fields of varying sizes competing for access to an aging and badly organised infrastructure. Wood called for an industry-backed regulator to ensure the most efficient and profitable exploitation of remaining resources, estimating that while 42 billion barrels of oil equivalent have been drawn out of the seabed, another 12-24 billion barrels could be available.

Thirdly, industry is also cranking up the exploitation of its workforce, while reducing its size. The industry centred on Aberdeen now has interests far beyond the North Sea, including Central Asia, Brazil and West Africa, and is worth up to $52 billion . To retain its global influence, costs—mostly wages—have to be driven down.

In response to the fall in oil prices, a wave of job losses was announced in the industry globally.

Oil industry trade unions in Scotland, despite verbal grandstanding, have a long record of doing nothing to fight job losses. Their main aim is to ensure the competitiveness of the oil industry. The Rail Maritime and Transport union (RMT) has endorsed the all-party consensus for tax breaks, with spokesman Jake Molloy insisting, "This is about sustaining oil and gas production from the North Sea ... and keeping the economy buoyant beyond May."

Mick Cash, RMT general secretary, claimed, "We will be pushing for a halt to the job cuts programme and an emergency package of measures to stave off the destruction of both jobs and infrastructure."

This is hot air, with the union's main concern being, in Cash's words, that firms presently have only "a short-term slash-and-burn approach that will have long-term implications for the future of the entire industry and the security of the UK's energy supplies."

The declaration that the RMT would fight job cuts followed the announcement by BP that 300 jobs would go at its North Sea operations. Following Cash's statement, Talisman Sinopec said it would shed 300 jobs.

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