The Oil Report

Scotland's political debate on the North Sea

March 2015

Scottish Conservatives

Introduction

Oil and gas is a valuable addition to Scotland's economy. Our offshore industry has contributed billions of pounds in tax revenue, sustains numerous on-shore businesses and is estimated to support around 440 thousand jobs across the UK. Since the closing months of 2014, however, the industry has suffered, not only from the predictable symptoms of the longer-term decline in the North Sea (NS) but from a dramatic fall in oil prices.

For decades, Scotland has relied on the tax generated by North Sea oil and gas to assist in its fiscal balance – reducing Scotland's long-term deficit. These billions of pounds of revenue have been invested on the infrastructure that supports our economy and public services: the roads, schools and hospitals we all rely on.

Scotland's constitutional position

North Sea oil and gas has been a divisive issue in Scotland's constitutional debate since its discovery in the 1960s and its successful commercial extraction beginning in the 1970s. It formed the basis of the Scottish National Party's campaign in the 1974 general elections, becoming a staple of its political platform in ensuing decades - and into the 2014 referendum campaign.

While the North Sea industry has been a boon to Scotland, the Scottish Conservatives made the case that it continues to benefit from the strength and stability of the wider UK. These arguments remain important not just in terms of Scotland leaving the UK – a future decisively rejected in last year's referendum – but also against the backdrop of the SNP's continued campaigning for 'full fiscal autonomy', which shares the majority of the fiscal disadvantages of full separation.

We emphasise the findings of the Conservatives' Strathclyde Commission and the cross-party Smith Commission that the United Kingdom remains a useful economic union that manages volatility, ensures the most effective management of North Sea reserves and provides Scotland with a stable and credible fiscal outlook.

A way forward

In this time of downturn in the North Sea's prospects, it is important that we learn the lessons of the referendum debate. The industry became heavily politicised and the extensive misrepresentation of revenues is well documented. This report seeks to consider the various effects of the errors and misleading statements made by the SNP, the Scottish Government and the Yes Scotland campaign in 2014 surrounding our oil and gas reserves.

Despite the recent decline in oil prices, the North Sea has a valuable future that can be maximised with the right decisions from both industry and government. This year's budget has provided that impetus, with a package of support worth £1.3 billion. It is, however, undoubted that the government will have to expect decreasing revenues from the North Sea in future years and decades.

If Scotland is to make the most of our assets, we must take an honest and realistic view of our oil and gas industry. It is incumbent upon all political parties to challenge inaccurate assumptions and ensure that what we say is based on credible fact.

The UK has built up a successful oil and gas industry that can continue to provide employment and opportunity to our country as our oil reserves decline. The expertise and experience both in Scotland and the rest of the UK can maximise the output of the North Sea, lend its skills to projects abroad, assist in the development of other industries such as onshore development and engage in the necessary task of environmentally responsible decommissioning of our existing oil and gas infrastructure.

Scotland's public finances

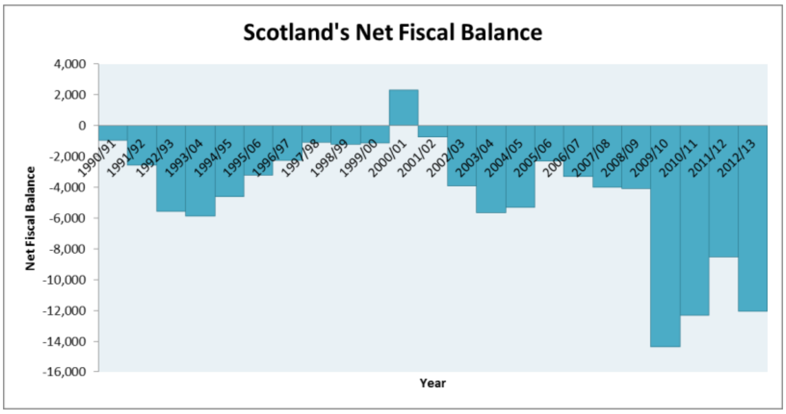
> *As part of the UK, the UK's fiscal union also shields Scotland from the volatile nature of oil and gas revenues. Scotland's fiscal position has been much more volatile on a year-by-year basis due to its greater exposure to large fluctuations in North Sea revenues. As part of the UK, the Scottish Government receives stable and secure levels of funding, and is able to pursue its own policies in relation to key public services such as health, education, housing, policing and transport.*
>
> -UK Government, Scotland Analysis Paper

In November 2013 the independent economic think-tank the Institute for Fiscal Studies produced its seminal report examining the fiscal sustainability of an independent Scotland over an extended timeframe. Its analysis was widely reported, including its central conclusion that—

> *significant further fiscal tightening would be required in [an independent] Scotland, on top of that already announced by the UK government, in order to put Scotland's long-term public finances onto a sustainable footing.*[1]

This provided the backdrop for the economic debate that informed the 2014 referendum.

The report took the position that fiscal sustainability on a level matching that of the UK would require additional fiscal tightening in an independent Scotland, beyond anything planned for the UK, of £6 billion each year when averaged out over a 20 year period.



A focus on oil and gas necessarily formed a major part of the IFS's findings. Scottish Government statistics show that North Sea income has, in recent years, accounted for as much as 21 per cent of Scottish-attributable revenue: over a fifth of our total tax-take.[2]

The Scottish Government's own oil report from March 2013, released under freedom of information laws, had already recognised Scotland's fiscal position in the preceding two decades. Despite both Alex Salmond and John Swinney claiming that oil was a "bonus, rather than the basis" for an independent Scotland's economy, John Swinney's private analysis stated—

> *Scotland has run a net fiscal deficit in 20 of the past 21 years. There has only been one year since 1990 when tax receipts have exceeded total public spending. This suggests that over this period North Sea receipts would have been required to fund public services in Scotland.*

The document then touched on the Scottish Government's suggestions of an oil investment fund—

> *Therefore if the Scottish Government had wished to establish an oil fund, it would have had to reduce public spending, increase taxation or increase public sector borrowing.*[3]

This position has continued, with subsequent Scottish Government figures showing that this deficit has now been in place for 22 of the last 23 years, a situation expected to continue in coming years.

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[1] IFS, Fiscal sustainability of an independent Scotland, November 2013
[2] GERS, 2008-09
[3] Available on the Scottish Government's website http://www.gov.scot/resource/0043/00435599.pdf

Scottish Ministers' claims that oil is a "bonus" is clearly inaccurate when every penny of revenue raised from oil has been required to support public expenditure in Scotland, still leaving a substantial long-term deficit. Nevertheless, this claim was readily repeated by Yes Scotland and other nationalist groups during the referendum campaign.

It was equally untrue to say, as Alex Salmond did before the Scottish Parliament on 21 May, that in the "last 40 years", oil revenues had "disappear[ed] into the maw of the London Treasury". The Scottish Government's own figures confirm that, over the 25 year period analysed above, Scotland has had access to billions of pounds in extra public spending compared to what has been raised in tax.

These issues around fiscal balance and the inevitable downward trend in oil revenues continued to present a headache to the nationalist movement. Their consequences were wide-reaching, with the risk of asymmetric shocks caused by volatility undermining the SNP's advocacy of a currency union. The problems of a commodity reliant independent Scottish currency were just as acute.

North Sea revenues

In February 2013, the Fiscal Commission Working Group, appointed by the then-First Minister Alex Salmond to advise on fiscal policy, instructed that "the Scottish Government should plan budgets on a cautious estimate for oil revenues".[4] Regardless, SNP energy minister Fergus Ewing stated in May of that year that—

> *The history of oil and gas extraction is that there is more than we think there is*[5]

This lack of caution continued in the Scottish Government's revenue estimates throughout the referendum. The first stage was a rejection of independent estimates, in favour of far more optimistic forecasts produced by the Scottish Government.

Rejecting the independent assessments

The Office for Budget Responsibility (OBR), set up to be impartial and distinct from government, produced forecasts of revenue from the North Sea as part of its fiscal projections. Prior to March 2013, John Swinney stated that—

> *The OBR forecasts set out alongside the UK's March budget have not been seriously challenged by the industry or by independent commentators.*[6]

OBR statistics were, at this point, regularly cited by Scottish ministers.

The initial projections

The SNP government's first alternative forecasts for North Sea revenue were contained within their March 2013 *Oil and Gas Analytical Bulletin*. The following table, extracted from the report, sets out the different scenarios analysed—

Table 5 - Illustrative Projections for Scottish North Sea Tax Revenue (£ Billions)

	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	Total (2012-13 to 2017-18)
Scenario 1	£6.7	£6.2	£5.5	£4.5	£4.2	£4.1	£31.3
Scenario 2	£6.9	£7.1	£7.1	£6.6	£6.8	£7.0	£41.5
Scenario 3	£6.9	£7.5	£8.0	£7.9	£8.5	£9.2	£48.1
Scenario 4	£6.9	£7.4	£7.7	£7.5	£7.9	£8.5	£45.9
Scenario 5	£7.2	£8.3	£9.4	£9.7	£10.7	£11.8	£57.1

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4 Fiscal Commission Working Group: First Report – Macroeconomic Framework, February 2013
5 Scottish Parliament, Official Report, 14 May 2013
6 Scottish Government leaked cabinet paper, published March 2013

The White Paper *Scotland's Future* (WP), the SNP's proposals for a separate Scottish state, adopted scenarios 2 and 4 as its pessimistic and optimistic forecast respectively. These figures underpinned all of the document's fiscal projections and spending commitments, as outlined in Chapter 2.

The oil and gas bulletin said—

> *In recent years, oil prices have exceeded many initial forecasts. For example, in 2010, futures markets implied an oil price of around $85 a barrel in 2011 and 2012. Actual prices over this period averaged more than $110 a barrel.*

To the Scottish Government, this implied that oil prices would generally exceed projections on the basis of performance over recent years. However the clear lesson from these facts was set out by the pro-UK campaigning organisations throughout the referendum: that oil is volatile and revenues are difficult to predict.

Comparison

Prior to the referendum we were aware that Scottish North Sea tax revenue in 2012-13 was £5.58 billion.[7] Scottish Government quarterly accounts for 2013-14 indicated that outturn in that period would be around £4 billion, considerably below the £6.9 billion in both WP scenarios.[8] Both fall far short of even the SNP's most pessimistic scenarios, while continuing a trend whereby independent OBR forecasts were optimistic rather than pessimistic when it came to the North Sea.

Experts at the Centre for Public Policy for the Regions at the University of Glasgow commented on the suggestion of OBR estimates taking an unduly cautious approach—

> *Any idea that UK government departments (and implicitly the independent OBR) may be serially under-estimating future oil production levels seem odd when juxtaposed against this evidence of repeated over prediction of production by DECC and OBR in recent years.*[9]

Seeking a revised forecast

In March 2014, the Scottish Conservatives brought forward a debate in the Scottish Parliament demanding that the Scottish Government update its oil and gas revenue forecasts.

Three days prior, the Scottish Government had told the Financial Times that it had never committed to regular updates of the forecasts set out in March 2013 bulletin.[10] This seemingly contrasted with assurances in the first bulletin, which stated that—

> *This is the first in a series of bulletins summarising recent trends in the Scottish oil and gas industry. Further updates will be published in due course.*

The Finance Secretary, John Swinney, conceded a new set of forecasts would be issued "in the coming weeks". Two months later in May, Ruth Davidson asked the First Minister what progress had been made and when it would be published. Alex Salmond replied—

> *I think Ruth Davidson should be very careful what she wishes for in these matters [...] when that forecast comes out it will look at the credibility of an Office For Budget Responsibility that suggests that oil prices will be less than 100 US dollars a barrel when they are currently 110 US dollars a barrel.*[11]

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[7] GERS 2014
[8] Scottish Government, Quarterly National Accounts Scotland, Quarters in 2013-14, Table 13 (Scottish Public Sector Revenues)
[9] John McLaren, Jo Armstrong and Ken Gibb, *Latest Oil and Gas Analysis*, July 2013 http://policyscotland.gla.ac.uk/697/
[10] Financial Times, *Pressure grows on Edinburgh to update oil forecasts*, 23 March 2014
[11] Scottish Parliament, Official Report, 21 May 2014

The revised forecast: dropping the pessimistic scenario

Later that month, the Scottish Government capitulated and revised down its projections for North Sea oil and gas revenue. The various scenarios considered were presented in this table—

Table 1 – Illustrative Projections for Scottish North Sea Tax Receipts (£ Billions)						
	2014-15	2015-16	2016-17	2017-18	2018-19	Total 2014-15 to 2018-19
Scenario 1	£3.3	£3.4	£2.9	£3.1	£3.2	£15.8
Scenario 2	£4.0	£5.5	£4.7	£4.9	£4.8	£24.0
Scenario 3	£5.4	£7.4	£6.2	£6.5	£5.9	£31.4
Scenario 4	£5.8	£8.3	£6.9	£7.3	£6.0	£34.3
Scenario 5	£5.5	£8.3	£7.5	£8.2	£7.4	£36.8
Scenario 6	£5.6	£9.0	£7.8	£8.3	£8.0	£38.7

Alongside the new Oil and Gas Analytical Bulletin, the Scottish Government published a document entitled *Outlook for Scotland's Public Finances and the Opportunities of Independence*. This examined Scotland's public finances and considered the impact of various policy choices.

However, unlike the white paper, the Outlook dropped the Scottish Government's less optimistic scenario – scenario 2 – and relied entirely on the higher-value scenario 4.

As the report itself notes—

> *Scenario 4 is used in all forecasts contained in this report. It is based on the assumption that prices remain fixed at $110 in cash terms in future years*[12]

Given the projected fall in oil revenues, to replace two overly optimistic estimates with the most optimistic estimate was an extraordinary decision. While the revision was ostensibly downward, the Scottish Government had shifted to making policy decisions on an even-more optimistic outlook alone.

Varying estimates

The table below compares two forecasts from the OBR with just two of the Scottish Government's scenarios. The first is the less optimistic (Scenario 2) projection used in the white paper. The second scenario is the only forecast used in the *Outlook for Scotland's Public Finances* publication in May 2014.

The OBR figures are inflated as they represent North Sea revenue across the whole UK rather than simply the Scottish sector. Illustratively, the Scottish attributable shares of North Sea revenue (ie, revenue raised geographically in the Scottish sector) has fluctuated between the 95% and 84% of the NS total in recent years.[13]

	2014-15	2015-16	2016-17	2017-18	2018-19	2014-15 to 2017-18
SG Low White Paper	7.1	6.6	6.8	7	-	27.5
SG Sole Scenario (May 2014)	5.8	8.3	6.9	7.3	6	28.3
OBR March 14 Forecast (UK)	3.7	3.8	3.2	3.4	3.5	14.1
OBR Dec 14 Forecast (UK)	2.8	2.2	2.4	2.6	3.1	10
OBR March 15 Forecast (UK)	2.6	0.7	0.6	0.7	0.8	4.6

These data above show that, at the time of the referendum, the Scottish Government's forecast for revenues over the next four years was more than double that of the independent OBR, which itself had a track record of over-estimating.

[12] Scottish Government, *Outlook for Scotland's Public Finances and the Opportunities of Independence,* p. 26
[13] GERS 2014, Geographical share of North Sea Revenue: Scotland

Creating an oil fund

In 2013, John Swinney acknowledged the volatility of oil in his leaked cabinet paper. The Scottish Government took the view that an oil fund would be one way to reduce dependency on this volatile commodity—

> *One approach is to reduce dependence on oil revenues to support annual expenditure limits, by using oil revenues to accumulate an oil fund. However this would, on present assumptions about on-shore tax revenues, require some downward revision in current spending*.

This was an implicit acceptance that the management of volatility would require cuts to public spending to pay into a fund.

The Scottish Government's report *An Oil Fund for Scotland: Options for Investing*, released under freedom of information law, made it clear that borrowing to pay into an oil fund was not a realistic option.[14] Using Norway as a case study, it said—

> *Returns on the Norwegian Oil Fund have been volatile … Over the 11 years since 2000 the Norwegian Oil Fund has made an average annual return of approximately 4.1% … if the Scottish Government was able to borrow at the same rate as the UK government, and adopted a similar investment strategy as the Norwegian oil fund, the returns on its investments may not cover the interest payments on its borrowing.*

Given statements by organisations such as Citigroup, Moody's Investors Service, Capital Economics, the National Institute of Economic and Social Research and Oxford Economics, the presumption that an independent Scotland could borrow at the same rates at the UK government is, in itself, a position of extreme optimism.

The report concluded—

> *If the Scottish Government had wished to invest in an oil fund, without having to increase its borrowing, there would have had to have been a corresponding increase in tax receipts or reduced public spending.*

The White Paper suggested two oil funds would be started "once Scotland's overall budget deficit is reduced to below the level of long-run economic growth and when debt is on a downward trajectory".[15] This was not further clarified by the Scottish Government despite requests. Independent forecasters such as the IFS confirmed that such an economic scenario would not occur in the foreseeable future without additional spending cuts or tax rises.

£1.5 trillion worth of oil?

The Scottish Government, Yes Scotland and other nationalist campaigning groups repeatedly used a figure of there being £1.5 trillion worth of oil left in the North Sea.

The figure was derived through a simple equation but was both inaccurate and extremely misleading. It made three basic assumptions: a high assessment of the quantity of oil and gas in the North Sea, a high oil price and a consistent sterling-dollar exchange rate. These three numbers were multiplied to achieve the £1.5 trillion figure.

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[14] Available on the Scottish Government's website http://www.gov.scot/resource/0043/00435599.pdf
[15] Scotland's Future, p. 306

The figure initially assumed that all of the North Sea's oil and gas could be extracted at zero cost. In reality, the oil clearly has a net value, minus the expense of extraction, exploration and other contributory costs. It assumed every drop of the North Sea's reserves were viable to extract.

It was also regularly used to conflate the value of oil with the tax revenues that would flow to the Treasury. In reality, of course, this is only a proportion of the value, with production costs and gains by the operators ignored.

A Parliamentary Answer delivered by the SNP's Fergus Ewing explained some of the methodology behind the figure.[16] Channel 4's *Factcheck* website criticised the reply, observing that it "suggests that both oil and gas reserves have been multiplied by the predicted oil price, whereas natural gas trades at much lower prices."[17]

N-56 report and Sir Ian Wood's intervention

N-56 was established as a think-tank by Yes Scotland board member Dan MacDonald in June 2014, three months before the referendum. It produced a number of reports on oil, with a key finding that—

> *If the recommendations from the Review of North Sea activity by Sir Ian Wood (Wood Review) and by N-56 are implemented, oil and gas revenues as high as £365 billion by 2040 (more than 6 times the OBR figure of £57 billion)*

Scottish Conservative MSP Murdo Fraser commented at the time—

> *It's remarkable an organisation whose founder sits on Yes Scotland's board has discovered £300bn worth of oil just weeks before the referendum*

N-56's reports were spread extensively by Yes Scotland social media.

Towards the end of August, Sir Ian Wood intervened in the referendum debate supporting Scotland remaining in the union. He noted his reluctance to speak out, explaining it by saying—

> *I have been pretty frustrated about the number of times I've been quoted and misquoted in much of the debate, so I really thought I couldn't let that go on*.[18]

He further stated in relation to the N-56 contribution—

> *The N-56 report is an insult to the Scottish people. That gets my back up, it's just pie in the sky. How can people make a critical decision on the basis of this kind of nonsense? ... It is a blatant attempt to manipulate voting sentiment.*[19]

An additional 21 billion barrels?

The N-56 report also claimed that an additional 21 billion barrels of oil could be extracted from the "Kimmeridge Clay formation through new techniques". This was used as the basis of the poster (*right*) used by the Yes Scotland campaign.

[16] Scottish Parliamentary Question, S4W-06988
[17] FactCheck: *has Salmond slipped up on Scotland's oil?* 24 February 2014, http://blogs.channel4.com/factcheck/factcheck-scotlands-oil-wealth/17811
[18] Energy Voice, video interview with Rita Brown, published 20 August 2014
[19] Energy Voice, *Scottish Independence: Sir Ian Wood says inflated oil forecasts are an 'insult'*, 10 September 2014 https://www.energyvoice.com/oilandgas/64858/sir-ian-wood-says-inflated-oil-forecasts-insult/

Professor David MacDonald, Professor of Petroleum Geology at the University of Aberdeen, however, called the claims “a gross exaggeration” that “should not be taken at all seriously” and “largely nonsense”.[20] He pointed to offshore fracking – the “new techniques” mentioned” – costing around ten times that of normal extraction.

A second oil boom

As First Minister, Alex Salmond predicted Scotland moving into a future oil boom on several occasions. For example, following the release of his first Oil and Gas Analytical Bulletin, Salmond said—

> *there can be little doubt that Scotland is moving into a second oil boom.*
>
> *It is also clear that a wide range of credible forecasters expect oil prices to remain close to present levels, or rise further in future years - with some organisations, such as the OECD, suggesting that prices could exceed $150-a-barrel by 2020.*
>
> *Even with a cautious estimate of prices remaining at $113 a barrel being used, it's clear that Scottish oil and gas could generate more revenues than has previously been assumed.*
>
> *Indeed, the scenarios examined - and based on recent investment and price trends - identify the potential for total revenues over the next six years of between £41 and £57bn*[21]

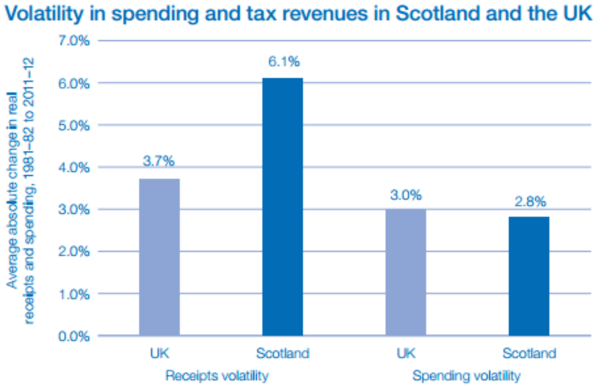
The rhetoric continued into September 2014, when the *Press & Journal* newspaper cited oil academic Professor Alex Kemp as suggesting there would be a “bonanza”. This phrase was quoted and publicised by the SNP, despite nowhere being attributed to Kemp. In a letter to the P&J editor the following day, Kemp outlined his research, concluding straightforwardly “there will be no bonanza”.

Moving forward, stabilising for the future

The fall in oil price and the inherent volatility it exposes does not only impact on the 2014 referendum debate. It also emphasises the advantage to Scotland’s public finances brought about by the strength and security of a wider UK economy.

This was recognised by Bank of England governor Mark Carney in January, who told the Treasury Select Committee that the fall in oil price was “a negative shock to the Scottish economy but it is a negative shock substantially mitigated by the fiscal arrangements in the UK”.[22]

Volatility in spending and tax revenues in Scotland and the UK



Source: Scottish Government, GERS; HM Treasury calculations

The attached graphic produced by the UK Government as part of their Scotland Analysis series[23] demonstrates over a period from 1980, oil price volatility has been managed within the UK. While revenue has been considerably more volatile in Scotland, spending volatility has been ironed-out across Britain.

There can be little doubt that the impact of falling oil prices has deepened the economic case for the United

[20] http://www.telegraph.co.uk/news/uknews/scottish-independence/11076113/Claims-of-North-Sea-fracking-boom-a-gross-exaggeration-says-leading-geology-professor.html
[21] BBC News, Scottish independence: Scottish government predicts 'oil boom', 11 March 2013 http://www.bbc.co.uk/news/uk-scotland-scotland-business-21741825
[22] BBC News, Sturgeon offers North Sea support as bank boss Carney comments on oil prices, 14 January 2015 http://www.bbc.co.uk/news/uk-scotland-scotland-business-30813681
[23] HM Government, *Scotland Analysis: Macroeconomic and fiscal performance*, September 2013

Kingdom. Professor Ronald MacDonald, Adam Smith Chair of Economics at the University of Glasgow, has pointed out—

> *At the time of the referendum economic analysts were showing an independent Scotland with a budget deficit of around 10% of GDP (including oil). With the current fall in the price of oil that would put today's fiscal deficit at the 12-13% mark. This is around twice the current UK budget deficit and is not a sustainable figure, requiring a severe austerity programme of tax rises and or expenditure cuts. Such austerity would in all likelihood lead to the most mobile workers in an independent Scotland, who pay the bulk of taxes, moving south of the border which would require further tax rises and spending cuts for those left behind.*[24]

While volatility and the oil price drop may be relevant to the constitutional debate, they are not the only challenges facing the industry. The North Sea has matured and will inevitably produce declining revenues in future decades as extraction and exploration costs increase and decommissioning costs rise.

Sir Ian Wood said in late January—

> *I had known Aberdeen pre-oil. I won't know Aberdeen post-oil, I will have gone, but there are generations out there who have always just taken it for granted, and who have become very, very dependent on the oil and gas industry,"*
>
> *They need to change their thinking. There is a potential way [forward] with the right kind of plan, and the right kind of people, and the right kind of local authority and the right kind of reception from the Scottish and UK governments to work our way through this.*
>
> *But we need to get started pretty quickly. We have this notion that in some undefined time, say 30 or 40 years, oil will begin to wind down.*
>
> *The fact is that it will begin to wind down in the next ten years. The fact is it is winding down now, actually, but very slowly.*

He added—

> *I kind of hope now, when we have got the macro devolution details sorted out, that the SNP government will say, 'Well, now we've got significant additional powers, let's go ahead and solve a lot of Scotland's problems and let's make Scotland a better place to live in'.*
>
> *And let's put that divisive referendum away on a back burner ... for a long, long period of time.*[25]

Creating the right environment for success

With a stable constitutional underpinning, it is vital that politicians do what they can to ensure the success of the North Sea. It is essential that jobs are secured and that income from the remaining oil and gas revenues are maximised.

In addition to cutting the supplementary charge at the Autumn Statement in 2014, the UK Government laid the groundwork for an overhaul of the taxation and regulation of the North Sea.


The Press and Journal
The Voice of the North

Government has listened at last on oil and gas

Chancellors' Budgets at election time tend to resemble Santa bearing gifts, but this one also had the north and north-east printed through it like a stick of rock.

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[24] R. MacDonald, The fall in oil prices and the finances of an independent Scotland, 17 December 2014 http://ronaldmacdonaldblog.tumblr.com/post/105436113821/the-fall-in-the-price-of-oil-and-the-finances-of

[25] The Guardian, Scotland advised not to take North Sea oil for granted, 24 January 2015 http://www.theguardian.com/uk-news/2015/jan/24/scotland-north-sea-oil-sir-ian-wood-snp-independence

A new regulator - the Oil and Gas Authority - was established, and consultations were released, seeking the views of the industry on its future.

These interim moves came to fruition in the 2015 budget on 18 March. The Chancellor of the Exchequer George Osborne brought forward a number of measures to stimulate the industry. In total, this package provides an additional £1.3 billion of support.

The supplementary charge was cut dramatically. This was designed to ensure that when profits were high, some of this returned to the exchequer – as profits fall, it is right that the rate should fall.

A basin-wide investment allowance has been introduced, additional support for exploration announced and a reduction in the Petroleum Revenue Tax taken forward.

This package has been well received, with Sir Ian Wood calling it an "essential lifeline from the Treasury to enable industry to start rebuilding confidence and investment".

Malcolm Webb, chief executive of the industry representative Oil & Gas UK said it "lays the foundations for the regeneration of the UK North Sea" and that "these measures send exactly the right signal to investors".

However the OBR's March revisions to UK offshore revenues, published at the same time, made for unfortunate reading. In the coming four years, the UK's oil and gas revenues are expected to remain below £1 billion in each year.

Budget 2015: At a glance

Investment allowance

A basin-wide allowance was announced, replacing existing field allowances and simplifying the taxation framework for investment, exempting a portion of profits from the Supplementary Charge.

The amount will be set at 62.5 per cent, set at the level of cluster area allowances. This was the precisely the rate that the Scottish Government advocated in its February 2015 consultation response.

Cutting the supplementary charge

The supplementary charge was developed to provide additional revenue at a time where oil companies' profits were exceeding expectations. It is therefore prudent to reduce the allowance when the industry faces challenges. The budget has followed up the Autumn Statement cut with a further reduction, taking the rate from 30 per cent down to 20 per cent, back-dated to the beginning of 2015.

Petroleum Revenue Tax

The budget also saw a reduction in the Petroleum Revenue Tax from 50 per cent to 35 per cent. This will promote investment in older fields and extend the life of existing infrastructure.

Seismic surveys

The Government had committed at the Autumn Statement to introduce support for seismic surveys, to provide a boost to exploration in under-explored areas of the North Sea and maximise our available resources. The budget announced that this would be brought forward, with a £20 million package available.

Decommissioning

The Oil and Gas Authority will be given powers over decommissioning recommended in the Wood Review.[1] The Authority will be able to scrutinise companies' decommissioning plans, ensuring that they take place in a cost-effective and timely way.

Honesty on our public finances

Had Scotland left the UK, as the SNP government advocated, it is likely our first years as a separate state would have seen oil revenues one-tenth of what the SNP's economic case was built on.

While once again, the OBR's estimates were proven to be overly optimistic and the extent of the oil price fall would have been difficult to predict, the extent of divergence brings into sharp focus the risks of politicised financial estimates. Scottish Conservatives have called for a Scottish OBR – a move which has gained wide support, including from the other two major opposition parties.

It is vital that any such organisation is truly independent, instead of merely an extension of existing Scottish Government bodies.

The UK Government has taken the right measures to secure the long-term future of the North Sea, averting the potential for a real crisis. To ensure this continues, we must avoid our oil and gas industry ever again becoming a political football.

Promoted by Mark McInnes on behalf of the Scottish Conservative and Unionist Party
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