

A tale of two countries: Scotland and Norway

Like Scotland, Norway is lucky enough to have an abundance of North Sea Oil. However, there are marked differences between our two countries. While Scotland's oil wealth has been squandered by successive UK governments, Norway has invested its oil revenues in a fund for future generations. While Scotland's record on poverty and ill-health remains a badge of shame, Norwegians enjoy the highest living standards in the world.

Norway's 100 years of Independence

Independence and control over oil revenues has been good for Norway. In 1974 GDP per person¹ was 6% lower in Norway than in the UK, yet by 2003 it was 24% higher than the UK and 30% higher than Scotland – equivalent to over \$8600 per person.

Economic growth has been lower in Scotland than Norway for 25 of these 30 years and in all but one year from 1991 to 2003. Unemployment has been lower in Norway than in Scotland in every year since 1974². This despite 20% more oil being produced in the Scottish sector of the North Sea³.

An Oil Windfall Fund – lessons from Norway

In 1995, Norway established the Petroleum Fund, which is now worth a total of £82bn, or £16,500 for every man, woman and child in Norway.

Most of Norway's revenue from North Sea oil goes straight into their Petroleum Fund. The Norwegian government uses its oil revenues to cover its moderate budget deficits and transfers the balance to its Petroleum Fund. The fund amounts to a national portfolio that is invested in a mix of financial instruments (bonds, equities, money market instruments and derivatives). According to the latest count, the fund has now reached 988 billion Norwegian kroner (NOK)⁴, or £82bn. It is expected to break the trillion kroner point this year.

Norway's Fund has achieved huge returns on investment – a record 12.6% in 2003. It also makes as much in investment return as in new oil revenues – this time last year NOK 22.1 billion (£1.8 billion) in new capital was transferred to the Fund, while the return on invested capital amounted to NOK 26.1 billion or £2.2 billion.⁵

The first transfer to the Petroleum Fund was made in 1996 and amounted to NOK 2 billion (£165 million). Since then, it has grown to NOK 113 billion (£9.3 billion) in 1998 to today's record size of £82 bn in 2004. If the fund were to be distributed equally between all Norwegians today, it would provide each citizen with over £16,500.

¹ Letter from House of Commons Library, 4th February 2004

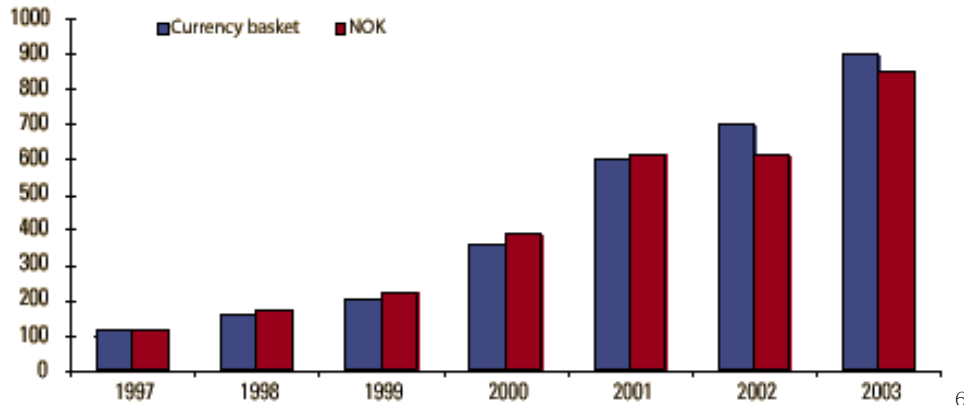
² Letter from House of Commons Library, 4th February 2004

³ Figures from UKOOA 2004 Activity Survey and the Norwegian Minister for Oil and Gas in *The Oil & Gas Review 2004*

⁴ <http://odin.dep.no/fin/engelsk/p10001617/p10001683/bn.html>

⁵ <http://www.norway.org.uk/policy/news/closetotrillion.htm>

The following graph shows the success of the fund – growing strongly year on year.



And the future looks just as bright, with the Norwegian government estimating the Fund will be worth almost £175 billion by 2010 – more than a doubling in just five years.

The halfway point – Scotland’s trillion dollar opportunity

The UK government’s own estimates show that there are decades of exploration ahead, and the industry itself has assessed that resources could last another 30 years. Scotland’s oil is not about to dry up.

With increased investment and a seven-year high in the number of drilling rigs deployed in the North Sea, there is continued optimism in the Scottish sector of the North Sea.

On Department of Trade and Industry (DTI) estimates⁷ there are up to 43.8 billion barrels left in the UK Continental Shelf. A more conservative UK Offshore Operators Association (UKOOA) estimate⁸ suggests 28 billion barrels. Clearly there is still plenty there.

In recent days the oil price has averaged \$45⁹ a barrel. However, the Treasury forecast for 2005 is \$38.20. Using the lower estimates¹⁰ and the higher estimates¹¹ the total value of remaining reserves in the Scottish sector of the North Sea is between \$1 trillion and \$1.87 trillion or £1 trillion.

This trillion dollar (£545 billion) resource can bring real benefits to Scotland and the Scottish economy, but only if responsibility and revenues are put under the control of the Scottish people and parliament. A trillion dollars equals current Scottish health spending for 83 years or total Scottish Executive spending for almost 23 years. It is an asset equivalent to £109,000 a head for every person in Scotland.

⁶ http://www.norges-bank.no/english/petroleum_fund/

⁷ DTI UK Oil and Gas Reserves - http://www.og.dti.gov.uk/information/bb_updates/chapters/reserves_index.htm

⁸ UKOOA 2004 Activity Survey was published on 27th January 2005 and is available at www.oilandgas.org.uk

⁹ Crude Oil was trading at between \$44 and \$46 between 24th and 31st January 2005 – BBC Online Marketwatch Data

¹⁰ UKOOA estimate of remaining reserves and Treasury forecast for oil price in 2005 – taking a 95% Scottish share.

¹¹ DTI estimate for maximum reserves and current oil price – taking a 95% Scottish share.

Over the past thirty years 34 billion barrels have been extracted from the UK sector of the North Sea, producing a cash windfall for the UK government of £200 billion¹². As much as half of the oil is still to come and, depending on the oil price, there could also be half the revenues to come.

Making the most of our national resources – the Oil Windfall Fund

Our campaign is focused on giving the Scottish Parliament control over Scotland's oil and gas resources and the revenues that will flow from those resources over the decades to come.

The SNP would ensure that Scotland's oil is utilised for the benefit of future generations by establishing an Oil Windfall Fund.

Our proposal for an Oil Windfall Fund is based on the example of the Norwegian Petroleum Fund. This fund would take and invest Scotland's oil and gas revenues so that the benefits of our ongoing North Sea windfall are felt not only today, but for the benefit of all future generations in Scotland.

On our illustration and assuming the same annual growth rate as achieved by the Norwegian Petroleum Fund since 1997, it would take 10 years for the return on our investment to match oil revenues, producing a continuing annual income of £4.3 bn. We need to act now to invest for Scotland's future.

The income from the fund would be used to secure investment in public service capital through the proposals for the Scottish Trust for Public Investment. This would allow the Scottish Parliament to deliver better public services, including improvements to our transport infrastructure, new, local health services and improved facilities for our children from early years to secondary school. It would mean a lower cost alternative to the government's wasteful PPP/PFI privatisation.

Our proposal would ensure that the benefits drawn from North Sea Revenues are sustained and are felt for decades to come by all future generations living and working in Scotland. These are Scotland's resources and the people of Scotland have a right to benefit directly from them.

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¹² Government Revenues from UK Oil and Gas production, Inland Revenue. Figures in real terms prices for 2003-04 from House of Commons Library.