PORTLAND MARKET REPORT

OCTOBER IN VIEW

IS THERE A FEASIBLE ALTERNATIVE TO DEVELOPMENT OF THE CONTROVERSIAL ROSEBANK OIL FIELD?

This month, politicians, journalists, environmental activists and energy experts all had their say on the controversial decision to approve the development of the Rosebank oil field – Britain's biggest untapped oil field. Lying 80 miles West of the Shetland Islands and 2,600m below sea level, drilling in this wild corner of the Atlantic (think 80-foot waves…) is due to commence in 2025. The field holds up to 240 million barrels and production is expected to peak at 92,000 barrels per day (bpd) in 2028, before a steady volume decline towards an expiration date of 2048. The divided opinions that have been generated by the decision to allow all this to go ahead highlight how complex and polemic the world of oil remains.

"AS LONG AS THE WORLD USES OIL, WE ARE GOING TO NEED EXPLORATION."

The virulent opposition to Rosebank has inevitably focussed on the climate impact of continued fossil fuel usage. As easy as it is to understand, this viewpoint overlooks the unavoidable truth that as long as the world uses oil, we are going to need exploration. Wishful thinking may tell us that if we stop extracting oil then demand will go down, but this is not how consumption works and if the UK stops extracting oil from the North Sea, then that demand will simply be met by production from elsewhere. Can there be any logic then in moving oil production away from the UK and then have that same production take place in countries that have zero desire to decarbonise, use dirty power (fuel oil, coal-fired electricity), have no air quality controls and where mass methane flaring is the order of the day? In that light, Rosebank starts to look like the best worst-option.

Proponents of Rosebank point to the employment, tax and energy security benefits of the new oil field. That the project will bring significant advantage to the already wealthy Shetland economy is not in doubt and these employment and investment benefits will spread into the wider offshore sector and more broadly around the whole of the UK. However, when it comes to tax, the income from the new oil field will be significantly muted in its early days of operation. Whilst overall, North Sea petroleum taxes (at a headline rate of 65%) bring in over £3bn per year for the Treasury, as a result of the so-called 'offshore investment-allowance', 90% tax breaks will be awarded to the developers of Rosebank. It will therefore be some time before UK plc receives any benefit from production.

Then there is the energy security angle, which is an almost entirely bogus argument. Unlike neighbouring Norway, Great Britian does not own the oil that is extracted in its territorial waters, meaning that it has no control over where the oil is sold. The reality is that North Sea oil (because of its high quality) is almost entirely sold to buyers outside the UK, with UK refineries preferring to import lower quality (non-UK) crudes at lower prices. And, in the case of Rosebank, the oil field is owned by Equinor (Norway), Suncor (Canada) and Delek (Israel), none of whom have any refineries in the UK anyway. At a stretch, energy security for Europe and the western world will be broadly improved by the opening up of Rosebank, as 'good' oil from the UK can displace some 'bad' oil from Russia. But Britain's benefit will be no greater than any other country abiding by the current sanction regime and, besides, 100,000 barrels a day is a drop in the ocean when compared to the 100m barrels consumed around the world every day.

Which means we have an oil field in the North Sea that generates marginal benefits whilst at the same time, comprehensively undermining the Government's own commitment to 'Net Zero'. As we lecture the rest of the world about the dangers of climate change, here we are cracking on with the 'business as usual' energy model. Of course, many climate activists simply want a complete and immediate halt to all North Sea exploration, but the consequences of such a move would see catastrophic impacts on jobs and government revenue, not to mention levels of compensation (to operating companies) that would be off the scale. It is, quite simply, not an option. A mature understanding of our continued requirement for fossil fuels is required, but then again, encouraging further use through subsidy is something altogether different.

"GROWTH IN THE ENERGY SECTOR WILL BE DOMINATED BY RENEWABLES FOR THE NEXT 25 YEARS."

If the Rosebank Oil Field needs to go ahead, then so be it, but we should forget the idea that it will help Britain's energy security and it shouldn't be subsidised. Growth in the energy sector will be dominated by renewables for the next 25 years so, for an island nation with significant natural advantages, an enviable research sector, a dynamic working population and an economy that evidently can support investment, it is in this area that subsidies (if they are necessary) should be channelled. Not for oil projects run by companies that are currently literally rolling in billions of dollars of profit. The Government's duty is to protect jobs, revenue streams and existing investments, but it should also be focussing on reducing overall consumption, whilst providing competitively priced green energy alternatives.

For more pricing information, see page 42

Portland
www.stabilityfromvolatility.co.uk