

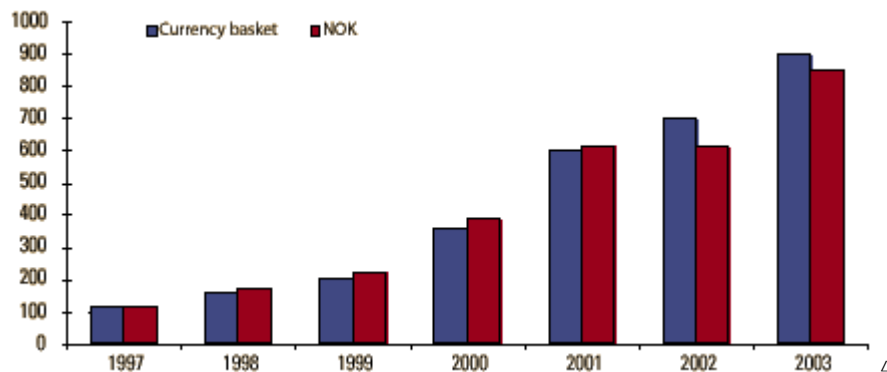
The SNP's proposals for a North Sea Oil Fund

The SNP is proposing that Scotland invests our oil and gas revenues in a North Sea Oil Fund, modelled on the Norwegian Petroleum Fund, so that the benefits are shared with future generations.

(i) Lessons from the other side of the North Sea

Most of Norway's revenue from North Sea oil goes straight into their Petroleum Fund. According to the latest count, the fund has now reached **1016 billion Norwegian kroner (NOK)¹, or £85.4bn.**

Norway's Fund has achieved huge returns on investment – **22.6% over the past two years** (8.9% for 2004)². 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.³ 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 doubling in just five years.

(ii) The halfway point – Scotland's trillion dollar opportunity

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.

¹ <http://www.norges-bank.no/front/pressemelding/en/2005/2005-03-01T09-42-36.fgen.html>

² <http://www.norges-bank.no/front/pressemelding/en/2005/2005-03-01T09-42-36.fgen.html>

³ <http://www.norway.org.uk/policy/news/closetoatrillion.htm>

⁴ http://www.norges-bank.no/english/petroleum_fund/

On DTI estimates⁵ there are up to **43.8 billion barrels left** in the UK Continental Shelf. A more conservative UKOOA estimate⁶ suggests **28 billion barrels**. Clearly there is still plenty there.

At the start of the year the average price for North Sea crude oil was \$45 a barrel⁷. However, the Treasury forecast for 2005 is \$38.20. Using the lower estimates⁸ and the higher estimates⁹ 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.

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 billion**¹⁰. 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.

(iii) Making the Most of our National Resources – the North Sea Oil Fund

The SNP 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.

Our proposal would see the creation of a North Sea Oil Fund, 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 billion**.

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.

⁵ DTI UK Oil and Gas Reserves - http://www.og.dti.gov.uk/information/bb_updates/chapters/reserves_index.htm

⁶ UKOOA 2004 Activity Survey was published on 27th January 2005 and is available at www.oilandgas.org.uk

⁷ Crude Oil was trading at between \$44 and \$46 between 24th and 31st January 2005 – BBC Online Marketwatch Data. At the start of March 2005 Brent Crude was over \$51.

⁸ UKOOA estimate of remaining reserves and Treasury forecast for oil price in 2005 – taking a 95% Scottish share

⁹ DTI estimate for maximum reserves and current oil price – taking a 95% Scottish share

¹⁰ Government Revenues from UK Oil and Gas production, Inland Revenue. Figures in real terms prices for 2003-04 from House of Commons Library.

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.

(iv) Independence is good – Lessons from Norway

Independence and control over oil revenues has been good for Norway. In 1974 GDP per person¹¹ 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 1974¹². This despite 20% more oil being produced in the Scottish sector of the North Sea.¹³

¹¹ Letter from House of Commons Library, 4th February 2004

¹² Letter from House of Commons Library, 4th February 2004

¹³ Figures from UKOOA 2004 Activity Survey and the Norwegian Minister for Oil and Gas in *The Oil & Gas Review 2004*