



**Friends of
the Earth
Scotland**

The future of the oil and gas industry

Friends of the Earth Scotland Submission to Westminster's Scottish Affairs Committee Inquiry

Friday 13 July 2018

About Friends of the Earth Scotland

Friends of the Earth Scotland exists to campaign, with partners here and across the globe, for a just transition to a sustainable society. We work in Scotland for socially just solutions to environmental problems and to create a green economy; we campaign to end the degradation of our environment and to create a society which cherishes and protects the natural world on which we depend; we think globally and act locally, enabling people to take individual and collective action. We are part of Friends of the Earth International - the world's largest grassroots environmental network, uniting 74 national member groups, over 2 million members and 5,000 local activist groups around the world. We are an independent Scottish charity with a network of thousands of supporters, and 10 active local groups across Scotland. Our vision is of a world where everyone can enjoy a healthy environment without exceeding their fair share of the planet's resources, now and in the future.

SUMMARY

1. The most important challenge for the oil and gas industry is how it can adapt and respond constructively to the requirement to stop burning fossil fuels in order to avoid catastrophic consequences of climate change.
2. A Just Transition is required in order to ensure that we make an orderly shift to a net-zero emissions economy in ways which protect employment and the contribution which energy companies make to our economy.
3. Energy supply will be needed as much as ever, even though energy efficiency measures should reduce total demand, so the transition can offer companies a positive future if they take the opportunity to convert themselves to renewables-based energy enterprises.
4. The overall challenge is to enlist the efforts, resources and knowledge of the sector to contribute to a just transition, not another unjust or insufficient one. A central element of this should be protection of the people who work for the sector by using their skills in the process of decarbonisation, with the sector seeking to redeploy and if necessary to re-train and upskill its workforce.
5. The UK government should convert subsidies to fossil fuel extraction into incentives for the industry to move rapidly to develop the energy supplies of the future.
6. The investment needed can create good quality new jobs and re-balance the economy, if done in ways which support local ownership and supply chains.
7. The failures of the marketised energy system, dominated by private multinationals, to deliver change at sufficient pace and scale mean that a much greater role for public investment and ownership is needed.
8. As Scottish and UK Governments drive much greater investment we need a planned approach to ensuring that employment levels are maintained, that workers in the fossil fuel industries are redeployed or have opportunities to move on to other equivalent jobs, that new jobs are secure and well paid and that developing sectors have at least as high levels of trade union organisation.

QUESTIONS

What challenges does Scotland's oil and gas industry face, and how can they be addressed?

The most important challenge for the oil and gas industry is how it can adapt and respond constructively to the requirement to stop burning fossil fuels in order to avoid catastrophic consequences of climate change. A Just Transition is required in order to ensure that we make an orderly shift to a net-zero emissions economy in ways which protect employment and the contribution which energy companies can make to our economy.

The report of the UK Committee on Climate Change on the Paris Agreement shows that global CO₂ emissions would need to fall to zero in the 2040s for the world to stay close to the 1.5°C temperature limit.¹ The Paris Agreement, ratified in April 2016, commits nations to holding global warming to well below 2°C and pursuing efforts to limit warming to 1.5°C, in recognition of the fact that even 1.5°C warming will have devastating consequences for the countries and peoples most vulnerable to the impacts of climate change.² Global warming of 2°C or more will result in catastrophic impacts, including an increase in extreme weather events, sea level rise, disruption of food production, widespread famine, new diseases, destruction of livelihoods and even entire countries, species extinction and habitat loss. In turn these impacts will bring increased political instability and violent conflict, and a rise in migration and climate refugees.³

Fossil fuels are the key driver of climate change, with CO₂ emissions from fossil fuel combustion and industrial processes responsible for 78% of the increase in global greenhouse gases.⁴ Research by the Grantham Research Institute and the Carbon Tracker Initiative in 2013 found that up to 80% of "coal, oil and gas reserves of publicly listed companies are 'unburnable' if the world is to have a chance of not exceeding global warming of 2°C".⁵ It goes without saying that in the 5 years since the report, we have depleted more of the remaining carbon budget, and the Paris Agreement aims of 1.5°C mean even less of these reserves are burnable.

The necessity for an energy transition is referenced in the Scottish Government's Energy Strategy, stating that "Scotland's long term climate change targets will require the near complete decarbonisation of our energy system by 2050." The Scottish Government and Parliament recognise the need for de-carbonisation, having set an ambitious Greenhouse Gas emission reduction target of 80% by 2050 in the Climate Change (Scotland) 2009 Act, with the present Government committed to increasing this in response to the global commitment to aim to keep warming below 1.5°C. The 2008 Climate Change Act commits the UK to reducing emissions of greenhouse gases by at least 80% by 2050 and the Energy Minister, Claire Perry MP, has recently written that "the UK will need to legislate for a net zero emissions target at an appropriate point in the future".⁶

At the start of this profound change the oil and gas industry provides the majority of our energy needs, the associated employment and the supply chains which spread throughout Scotland's productive economy. As the shift from fossil fuels to renewables continues, the industry should accept the need to keep most known reserves of fossil fuels unburnt and plan to adapt. Energy supply will be needed as much as ever, even though energy efficiency measures should reduce total demand, so the transition can offer companies (and the infrastructure which supports them in e.g. universities) a positive future if they take the opportunity to convert themselves to renewables-based energy enterprises. In doing this, a central element should be protection of the people who

¹ <https://www.theccc.org.uk/wp-content/uploads/2016/10/UK-climate-action-following-the-Paris-Agreement-Committee-on-Climate-Change-October-2016.pdf>

² The Paris Agreement 2015:

http://unfccc.int/files/essential_background/convention/application/pdf/english_paris_agreement.pdf

³ IPCC Fourth Assessment Report: Climate Change 2007 Working Group II Report

"Impacts, Adaptation and Vulnerability" http://www.ipcc.ch/publications_and_data/ar4/wg2/en/contents.html

⁴ SPM 1.2 http://www.ipcc.ch/pdf/assessment-report/ar5/syr/AR5_SYR_FINAL_SPM.pdf

⁵ <https://www.carbontracker.org/reports/unburnable-carbon-wasted-capital-and-stranded-assets/>

⁶ <https://unfccc.int/sites/default/files/resource/UK%20Mid%20Century%20Strategy%20cover%20note.pdf>

work for the sector by using their skills in the process of decarbonisation, with the sector seeking to redeploy and if necessary to re-train and upskill its workforce.

The concept of a Just Transition provides a framework for planning these vital changes in ways which also generate wider social benefits and create a stronger and more just economy.⁷ The investment needed can create good quality new jobs and re-balance the economy, if done in ways which support local ownership and supply chains. In turn this will generate wider popular support.

However, conversely, failure to recognise and respond to the challenge of climate change and the transition away from fossil fuels could result in much less positive outcomes. As well as the environmental and social disasters which will flow from failure to decarbonise, a disorderly transition can lead to economic dislocation, loss of employment and employment rights and rising unemployment in the affected communities – as happened in the unjust transition away from coal-mining.

A specific challenge for oil and gas companies is that as the markets for oil and gas shrink, different, renewables-based companies displace them as suppliers of energy to the Scottish economy. A related challenge for Scotland is that those renewables companies may be mostly foreign-owned, with limited local supply chains, creating employment and profits mostly overseas rather than in Scotland – as happened with the growth of onshore wind.

A more systemic danger may arise from the failure of companies and financial markets to account for the implications of emissions reductions targets – that the large majority of known fossil fuel reserves have to remain untapped, even though they are reflected in the valuations of the assets of fossil fuel companies. The point at which these stranded assets are written down threatens the bursting of a bubble with the capacity to destabilise the entire financial system. Bank of England Governor Mark Carney has endorsed the fossil fuels as stranded assets thesis, warning investors they face huge losses if they fail to act.⁸

The overall challenge, therefore, is to enlist the efforts, resources and knowledge of the sector to contribute to a just transition, not another unjust or insufficient one.

How can the economic return from Scotland's oil and gas reserves be maximised?

The question of 'economic returns' has to be seen in a social and collective frame – what overall benefits can accrue from the operation of the industry, not what profits can be made from it. The touchstone should not be how can private companies create profits from extracting fossil fuels but what policies regarding oil and gas can achieve the best for our people and our environment. The pursuit of maximum economic return for private oil and gas companies will be at the expense of our climate, of our environment and so ultimately of our health and our economic prosperity. If the damage caused by burning oil and gas were to be properly accounted for, taking into account the externalities (the harm to society) then we believe there would be no economic case for it. Economics, and the idea of an economic return, should incorporate all the impacts of economic activity, including the economic consequences of pollution/GHG emissions.

The most important economic contribution of Scotland's oil and gas sector now has to be restricted to its role in a managed and just transition away from burning fossil fuels. An oil company which uses its massive historical profits, all of which were accumulated with the support of government and the public sector, for an orderly and rapid transition to renewables would be making a socially-useful return to all that public and private investment.

⁷ <https://foe.scot/campaign/just-transition/>

⁸ <https://www.carbontracker.org/bank-of-england-warns-stranded-assets-pose-threat-to-financial-stability/>

What action is the UK Government taking to support the long-term future of the oil and gas industry in Scotland, and how effective has this been?

The UK Government's tax breaks and subsidies for new exploration are taking the industry in the wrong direction. Support to the energy sector should be channeled into a transition away from fossil fuels that is fair and just to the workers and communities currently dependent on jobs in that sector. The UK Government should convert subsidies to fossil fuel extraction into incentives for the industry to move rapidly to develop the energy supplies of the future, creating good new jobs, not to get locked into systems which we know we will have to abandon.

The policy of "Maximising Economic Recovery" therefore is inconsistent with meeting emissions reductions targets. The UK Government should assess this policy against its legal commitments under the Paris Agreement and the Climate Change Act 2008 and propose an alternative objective for the UK Continental Shelf which would be in line with it. It should work with stakeholders to set out a Just Transition plan for the North Sea Oil and Gas sector, including a transition to greater exploitation of the North Sea's renewable energy resources, which protects employment and delivers net economic benefits to the North Sea region, so meeting economic, social and environmental objectives together.

How well do the different stakeholders (UK Government, Scottish Government, companies) work together? Does the current devolution settlement enable all stakeholders to support the sector?

Policies and actions taken by both Scottish and UK Governments point in two different directions – 1) supporting the oil and gas industry to maximise extraction and 2) promoting decarbonisation. While setting GHG emissions reductions targets they also support maximising economic recovery of fossil fuels and invest in infrastructure which locks in reliance on them. Yet the Scottish Energy Strategy says that it is 'guided by three core principles: a whole-system view, an inclusive energy transition and a smarter local energy model.'

This inconsistency has to be addressed urgently if we are to play our part in avoiding catastrophic consequences from climate change. The framework of Just Transition can help resolve this tension. Recognising the fundamental importance of energy to the Scottish economy, it can map a route to a new economy in which renewable energy sources and the technologies based on their use play just as important a part as oil and gas do now, and in which the skills of the workforce can be used, adapted and developed for that purpose, supporting at least as many well-paid and secure jobs.

This won't happen under the UK's current energy policy, under which investment in renewables has declined drastically. Leaving the pace and direction of investment to market-driven decisions based on profitability for multinational energy corporations is not delivering the changes needed – investment in clean energy investment fell by over 50% in 2017.⁹ A much more assertive approach in which public direction and ownership takes the lead is required. The relevant sections of the enterprise, economic development and industrial policies need to be thoroughly revised to be consistent with the Scottish Government's Energy Strategy.

How can Scotland maximise its expertise, technology and infrastructure in oil and gas industry to secure the industry's future as reserves decline? What support is needed from Government to maximise these opportunities?

The industry's future is in the Just Transition to net zero emissions and a good starting point is to recognise and embrace that. A lot of its expertise, technology and infrastructure can be deployed and developed for renewable energy developments in the North Sea and other marine waters. Offshore wind generation has many of the same construction, communications and servicing needs

⁹ https://publications.parliament.uk/pa/cm201719/cmselect/cmenvaud/617/61704.htm#_idTextAnchor010

as offshore oil and gas. The engineering and project development expertise of the oil and gas sector can also be re-deployed to support growing tidal and wave electricity generation. Decommissioning is also a massive opportunity for using skills and services currently deployed on extraction. Beyond these examples, workers and enterprises should be given support to transition to work in the transformation of the rest of the economy (the energy consuming sectors) for reliance on renewable energy technologies and reduction in energy demand. Examples include decarbonisation of transport and space heating, energy efficiency in buildings and modernization of production industries.

In terms of government support for this, the Scottish Government has moved further than the UK Government, having announced in September 2017 that it will set up a Just Transition Commission, though its precise remit and role are unclear at this stage.

Plans for the Just Transition must include urgent action to increase the scale and pace of transformational investment in infrastructure, energy generation and industrial processes. The failures of the marketised energy system, dominated by private multinationals, to deliver change at sufficient pace and scale mean that a much greater role for public investment and ownership is needed. The Just Transition Partnership, set up by Friends of the Earth Scotland and the Scottish Trade Union Congress in 2016, has set out three immediate steps which are needed:

1. a **Just Transition Commission** to advise on and energise the transition with a powerful remit and sufficient resources to be effective; and with commissioners drawn from trade unions and environmental organisations
2. a **Scottish National Investment Bank** with a remit linked to financing the Just Transition, and sufficiently capitalised to transform investment patterns in Scotland.
3. a **Government-owned energy company** which can extend energy democracy and use public ownership to speed up the Just Transition.

A crucial element of the Just Transition is a planned approach to ensuring that employment levels are maintained, that workers in the fossil fuel industries are redeployed or have opportunities to move on to other equivalent jobs, that new jobs are secure and well paid and that developing sectors have at least as high levels of trade union organisation and recognition. As Scottish and UK Governments drive much greater investment in the low carbon economy they should be ensuring that new good quality jobs are created here in the UK and offering support for the workforce as we move away from fossil fuels.

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