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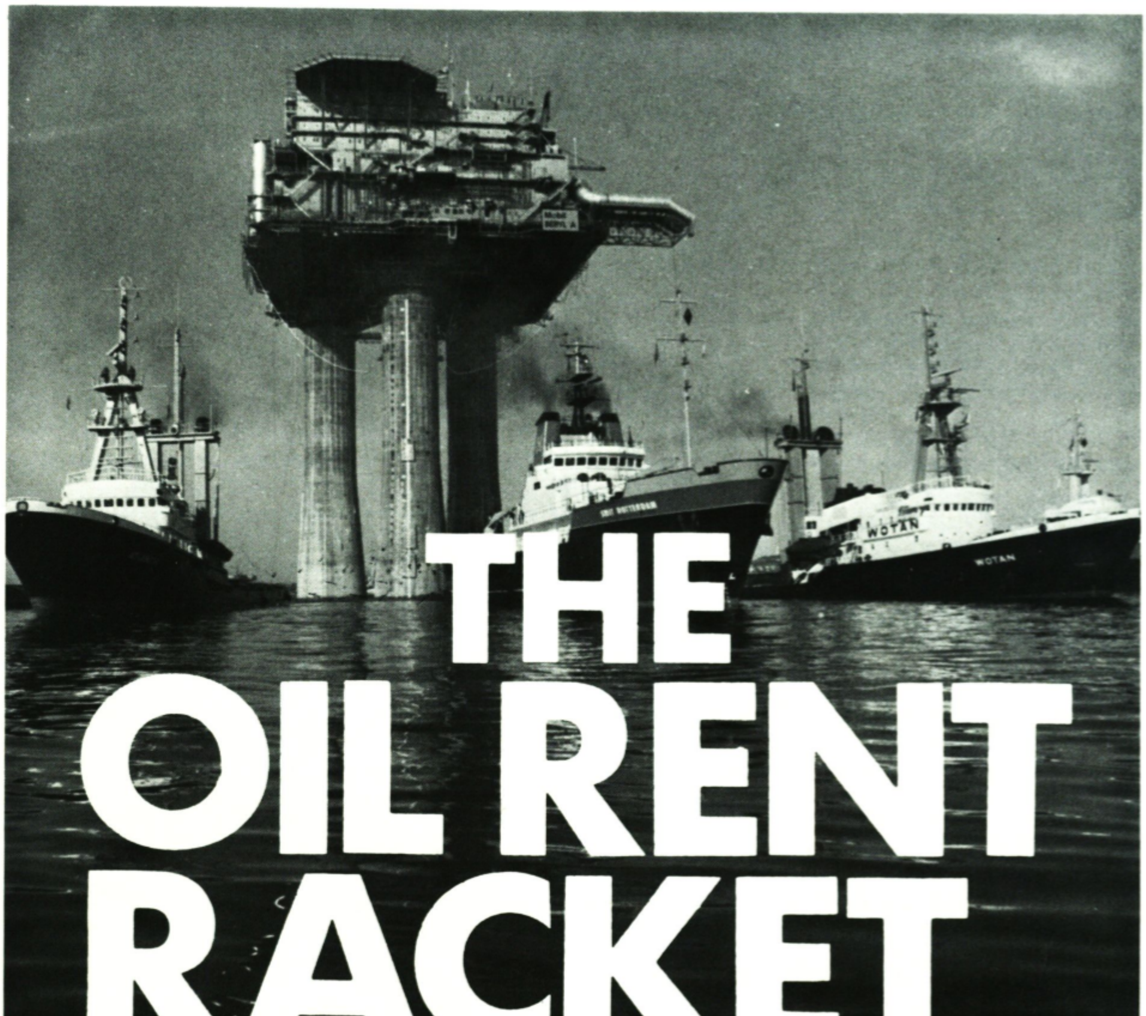
SPECIAL REPORT—
LAND DECADE 1980-90



THE OIL RENT RACKET

THE STAKES are astronomically high: billions of pounds in profits as OPEC pushes up the price of crude oil. In this issue, *Land & Liberty* investigates how oil rent is pumped into private pockets. A tax on economic rent is the only way to guarantee a fair distribution of the socially-created value of natural resources. The independent Brandt Commission, proposed by World Bank President Robert McNamara and backed by UN Secretary General Kurt Waldheim, has concluded that finance must be raised on a global scale to support development programmes. And the Commission, composed of some of the world's leading statesmen, favours some form of global taxation. What better than to tax the earth's natural resources for the collective benefit of mankind?

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COVER PHOTO

MOBIL'S Beryl "A" oil production platform is towed by tugs from a fjord at Stavanger to the field 95 miles south-east of Shetland in the UK sector of the North Sea, where it has been helping to produce millions of pounds in profits for the oil company.

Ecology Issue

IN THE Third World, millions of people suffer from malnutrition: they are landless. In the rich Western world, ecologists emphasise the need to conserve land, which is being transformed into deserts and derelict tracts incapable of sustaining life: their message has concentrated on the need to use alternative techniques – a recourse to more traditional methods of cultivation – and they neglect the role of land tenure. The global challenge is to nurture nature while providing food for everyone. In the next issue, Land & Liberty *identifies the main problem as land monopoly, which dislocates social systems and in turn causes ecological havoc.*

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THE OIL STAKES

PRESIDENT Carter threatened "punitive action" against the US oil industry after it reported record third-quarter profits. Despite the tough words, the politicians on Capitol Hill are not anxious to implement Carter's demands for a tough windfall oil profits tax.

● The Senate Finance Committee approved a profits levy last October that would bring in $142bn over the next 10 years..... less than half what the Carter administration proposed, and far short of the $273bn bill already approved by the House of Representatives. The compromise figure: $227.3bn.

● The prospects of shifting the burden of taxation away from wages and interest on capital investments – and onto the value of natural resources – are enormous: provided the right kind of fiscal policies are pursued.

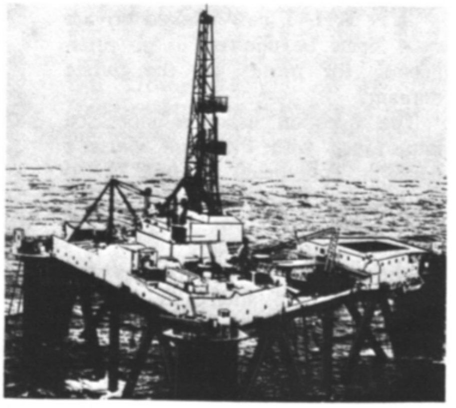
● For the value of petroleum is enormous. Alaska's Commissioner for Natural Resources, Robert Le Resche, estimates that oil companies will pay $2bn for the right to explore the shallow Beaufort Sea.

● Oil companies have just bid a total $1.27bn for the right to explore off the North American coast in the Atlantic. This was far greater than the $200m which had been officially anticipated. The most aggressive bidder was Mobil Oil, which submitted bids worth $494.3m, with a combination of partners, for the rights to drill on 16 of the 116 5,760-acre tracts off the coast of Nantucket.

● In Britain, however, the desire to favour UK-based oil companies has resulted in a set of policies which prevents the taxpayer from enjoying the full benefits of the discovery of oil in the North Sea.

● Not content with existing low levels of taxation, however, the oil companies are searching for ways to reduce their fiscal obligations still further (see: Bruce Andrews, 'Oilfield plan may save tax', ***Financial Times,*** **26.10.79).**

Oil pirates plunder Britain's North Sea



REPORT BY FRED HARRISON

THE US SENATE Finance Committee's recent vote for a more lenient version of the oil windfall profits tax is consistent with the general political desire to allow oil companies to retain a large chunk of oil rent.

President Carter proposed the tax to skim off a large slice of the extra profits which the industry will receive as a result of the decision to deregulate oil prices.

The rise in profits as a result of a Presidential stroke of the pen means that the extra revenue will be pure economic rent; for there will be no commensurate increase in production costs.

The oil giants, however, want a slice of the action: why should the rest of the community enjoy the whole of the extra revenue? Particularly as Carter wants the money spent on research into competing forms of energy!

The oil barons will get their way. The story is the same in the scramble for profits out of North Sea oil.

TAKE THE year 1978. The value of Britain's oil and gas production is put at £3.3bn.

Government revenue was a modest £521m.[1] If we add to this the total operating costs of £343m.,[2] employment income of £100m., and recognise an immediate allowance of £2bn. to fully reimburse the companies for capital expenditure, there is still £336m. adrift.

This figure is reached by using the higher 1978/9 figure for government revenue (Table 1).

However, the difference is dramatically increased if we use the Dept. of Energy's valuation in what is called the Brown book, in which indigenously produced gas is valued at the cost of equivalent imported oil (£2bn.).[3]

TABLE I. Government revenue from North Sea oil & gas: £m.

1976/7	1977/8	1978/9	1979/80
81	238	521	1,390

Oil and gas, on this basis, was worth £4.8bn. And the sum adrift was a whopping £1.8bn. Thus, one of the Dept.'s claims seems misleading:

> **"The resources needed in the production of oil and gas are substantial . . . Nevertheless this leaves a very significant excess of revenues over costs, a large part of which accrues to the nation as receipts of royalties and taxes on profit."**

Capital expenditure will now decline: the North Sea industry is well-established (Table II). And with OPEC setting the price increases, the size of profits will enable a double-quick payback of every penny of capital expenditure which the oil giants have incurred, totalling about £13.6bn by next year.

So within a few years, the size of oil rent – the difference between revenue and current labour and capital costs of operating the industry – will take off into the stratosphere. This is true even if we allow for continuing marginal exploration.

The UK Government, however, will not claim this bonanza rental income for the benefit of us all.

Moreover, Mrs. Thatcher's new spirit of private enterprise will ensure a bias in favour of reducing the community's share of the North Sea bonanza. She will resist the idea that society has a legitimate claim to the full economic surplus.

British pirates will be plundering on the high seas again, and with the full authority of the law!

REFERENCES

1. *Economic Progress Report*, No. 112 (1979), p.3.
2. *Development of the oil and gas resources of the UK 1979*, London: HMSO, 1979, p.19.
3. *Ibid*, p.18.

TABLE II: North Sea Oil & Gas £ billions

	1977	1978	1979	1980	1985
Value of gas and oil production	2.8	3.3	5.5	6.6	8.6
Total royalties plus pre-tax profits	2.2	2.7	4.8	5.8	7.6
Capital expenditure	2.1	2.0	2.1	1.6	1.0

SOURCE: UK Treasury's *Economic Progress Report*, No. 112, Aug. 1979. Figures for 1980 and 1985 are provisional estimates.