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BUSINESS

**Oiled Up**

**The slump in the price of oil is hitting the Scottish coastal city of Aberdeen hard. Thousands of jobs are being cut. And the Scots can now spare themselves the dream of independence.**

Nina Trentmann in Aberdeen

Dozens of seagulls circle in the wind over the heavy supply ships and the massive oil tankers at Regent Quay. It is a cool summer evening in Aberdeen, northeastern Scotland, where the thermometer rarely rises above 20 degrees. Already in the early evening the streets around the harbour are deserted, and there are no engineers or workers to be seen on the ships' decks. The grey sky and the grey facades of the houses make for a dreary atmosphere.

Aberdeen is called Granite City, grey against grey - but that is not why the mood here is bleak. Rather, it is because the source of the city's wealth, and that of all Scotland, has dried up. Indeed the nationalists wanted to construct their own, independent city with the billions in income provided by the trade in oil, which is pumped from the sea floor up near the coast.

Yet nothing will become of it now. Not from the state, as in a referendum last year 1.6 million Scots voted in favour, but two million against. And not from the significant wealth, either; Aberdeen's economy is collapsing with the drastic fall in oil prices, and the entire region along with it. One year ago the price was still set at $115 per barrel (159 litres). That number has since been cut in half. This week Brent Crude oil, from the North Sea, temporarily cost as low as $55.67 (50.50 euros).

Income in Aberdeen is still one third higher than the British average, unemployment is low, and many renters are at least millionaires on paper. Yet now a dramatic fall looms. More than 5,000 jobs have already been lost, and tens of thousands more are in danger.

Nicola Sturgeon, First Minister and head of the regional government in Edinburgh, is also aware of this. A few months ago she believed the oil income to be sufficient enough to finance large segments of an independent Scottish budget. It now appears this will not be the case. She does not mention a word of this plan at a recent oil conference in Aberdeen. Instead she encourages the energy managers in the audience to make their companies more efficient, so that their profits can start bubbling up once more. "This is an enormously challenging time for the industry," she says instead. Within one decade, she says, the productivity of the Scottish oil industry has sunk drastically. Moreover, she continues, only 14 test drillings were conducted this past year - the lowest number in years. "There were 44 in 2008," says Sturgeon, looking around resolutely at the audience of 500. "It cannot go on like this."

"The industry built itself up too fat," confirms John Scrimgeour. The 60-year-old worked in the oil industry for more than a decade in Great Britain, Australia, Brazil, Tunisia, and Saudi Arabia. Now he heads the Institute for Energy at the University of Aberdeen, where he researches the cost structures of the British oil sector. Within a few years, he says, the costs for operating an offshore oil platform intermittently increased from $125,000 per day to over one million dollars. "The prices were absolutely crazy. And they're only slowly going back down," he says. Scrimgeour expects that the price of oil will remain at around $60 per barrel temporarily.

Even the lobbyists of the industry will confess that the prices are not especially competitive. "Our industry's efficiency continues to decrease year after year," says Deirdre Michie, CEO of the industry organisation Oil & Gas UK. "And, to be totally honest, we actually knew last year that we have this problem, even with oil prices at $110 per barrel." She says that even if the price of oil recovers, the Scottish oil producers have to become more efficient.

This means job cuts. 1,400 jobs were terminated in May alone. And the French concern Technip, one of the largest employers in the North Sea's offshore industry, announced that it wished to cut 6,000 jobs. "People are not cutting deep enough the first time when they want to start saving," says Scrimgeour. His son, recently 20, is also employed in the oil industry. He hopes that he will be able to keep his job.

The city is suffering from the fall in oil prices along with the industry itself. Hotels and restaurants complain of declining sales figures, and bankruptcy is on the rise. The unemployment rate in and around Aberdeen is only about one per cent, but Scott Baxter believes that this will rapidly change. The 46-year-old is the deputy CEO of the Cyrenians in Aberdeen, a charity organisation that primarily aids the homeless. "This is one of the worst downturns of all for us," he says and looks up in desperation at the ceiling of his cellar office in the centre of Aberdeen. The Cyrenians have established a storage space for clothes, sleeping bags, and furniture here. "We never had that before," says Baxter, pointing to a box of diapers. "These days there are entire families losing their homes." He says that most of his "customers" worked with suppliers in the oil and gas industry as drivers, caterers and other service providers. They used up their savings quickly after losing their jobs.

Baxter relies on donations for his work, some of which come from the oil companies. The city government cannot contribute much. Despite the billions in taxes that the oil brings each year, the city's municipal budget is meagre. This is because the profits from oil production go to London - and only a portion comes back. Lined up along the main road, Union Street, are bookies, 1-pound shops, and discount chains all next to each other. The "Western Peripheral Route", the western bypass, was supposed to be constructed years ago. Only now are the necessary funds available.

The city could also fall back on private funds. Entrepreneur Ian Wood, who made millions from delivering raw materials, wanted to renovate the city centre along with other funders. 140 million pounds (197 million euros) were earmarked to fundamentally change the city and serve as a reminder to the oil industry. "Aberdeen will continue becoming less attractive if we don't do something," urged Wood. Yet despite an affirmative vote from the city's residents, representatives of the Labour majority on the city council voted against the project.

One reason for the Labour government's resistance is the growing strength of the SNP, the Scottish National Party, who were among the supporters of Wood's plan. During the House of Commons elections in May they won the majority of the voting districts previously held by Labour. The decline of the price of oil makes clear the danger of the SNP's plan after last year's referendum to meet the national budget with the revenue from the production of raw materials. However, the party still has many supporters in Aberdeen as well.

Maureen Watt, the SNP representative of the electoral district of Aberdeen South and Kincardine, formerly worked for a German oil company. "The people here are very nervous, wondering who's going to be the next to lose their job," the stocky woman says. Over the years she has observed how the high wages paid to the oil workers cause prices to climb back on the mainland. According to current figures from the corporate consultant firm Mackay Consultants, the average income in Aberdeen is 33,973 pounds per year (about 47,900 euros). This is 33 per cent more than the national average. Much like in the capital, there is a lack of affordable living space in Aberdeen. Angus MacCuish is able to confirm this. He is the CEO of FG Burnett, a real estate agency in the stylish West End of Aberdeen. "From 2012 to 2014 businesses in Aberdeen boomed more than they had in 30 years," says the bald man. "It was like a party. It had to end sometime."

But the decline in the price of oil has been kept at bay, and the real estate market is still attractive. Savills, a broker of high-priced real estate, opened a local office in Aberdeen just a few months ago. Working there is Fiona Gormley, a plump 42-year-old woman who tends to customers who wish to pay more than 400,000 pounds for a property. She drives her heavy SUV down the Rubislaw Den, the most coveted street in Aberdeen. "They used to belong to the bankers and the fish sellers," says Gormley, who does not expect the prices to relent this year. "There's a lot of new money here, and the money has to go somewhere," she says with a laugh.

The average price for a home in Aberdeen is about 200,000 pounds. "That's 30 per cent more than the Scottish average, and because of the oil being found the prices kept going up," says the broker. She says that this led to many families not being able to afford a house. "However, we're not ashamed to say that we primarily work with high earners," says Gormley. She owns two properties, one of which is worth 800,000 pounds (1.12 million euros).

These days she especially enjoys showing the "Auld Kirk", an old church repurposed into a house near the golf course. The building dates back to 1843 and is expected to cost around 860,000 euros, after conversion. Owner Ronnie MacAskill, an art dealer, believes that he will receive a good price for the property despite the fall in oil prices. "Just look, the house has its own character," he says. It includes multiple bathrooms and bedrooms, a terrace up in the steeple, and an adjacent outbuilding.

MacAskill enjoys playing golf on both the Royal Aberdeen course and the Trump International Golf Course. US billionaire Donald Trump's investment made international headlines recently when he filed a suit against a planned wind farm off the coast and lost in court. "The Trump Golf Course is wonderful advertisement for Aberdeen," says Gormley as she pulls her car up to the facility. "He brings wealthy guests to the city."

High-end tourism is one of the pillars that the economy of the future shall rest on. This includes expensive whisky, beef, and alternative energy. The Aberdonians know that the oil at the sea floor off their coast will be exhausted. "We have to develop alternatives if we want to maintain our standard of living," says scientist Scrimgeour.

Despite the current plans in London to grant the Scottish, Welsh and Northern Irish more responsibility, it is unlikely that the region will receive more revenue from the oil. "Westminster will not give this money up," says SNP representative Maureen Watt, "the government has always seen the oil as a cash cow." Besides, the revenue has been drastically decreasing recently. According to figures from the national tax authority, the HMRC, revenue in 2014/2015 amounted to about 2.1 billion pounds. Compared to that same time the previous year, this is a decrease of 54 per cent.

Finance Minister George Osborne promised to support the industry in light of the price decline. He reduced its tax burden from 50 to 35 per cent and expanded the allowances for research investments. The newly established regulatory authority Oil and Gas Authority is intended to help tap new fields. In addition to the low oil price, there are the expenses for scrapping old drilling platforms. These may undergo a drastic increase in the coming years, and according to Oil & Gas UK approximately 14.6 billion pounds must be invested in the demolition by 2023. This number is expected to increase to 37 billion by 2040. This curbs the confidence in the industry, which has been falling for the past eight quarters according to the local chamber of industry and commerce.

Granite City's older residents have a more relaxed view of the current shock at the price of oil. Scrimgeour remembers when one barrel of oil cost a mere eight dollars in the '80s. "Back then scores of people were giving back their houses they'd purchased on credit," says the 60-year-old. The price in oil also sank sharply in 1992, 1998, 2002 and 2008, and Aberdeen suffers. "Despite it all we're still here fighting," says Scrimgeour, pounding the conference table with his fist. "It won't be so bad this time."