The Oil Drum: Europe
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Grangemouth strike: Anglo Disease in action?

Posted by Jerome a Paris on April 27, 2008 - 7:51pm in The Oil Drum: Europe
Topic: Policy/Politics
Tags: anglo disease, forties, grangemouth, north sea, unions, united kingdom [list all tags]

Extended from the European Tribune version, which was itself inspired by earlier coverage here on TOD. More relevant background can be found in these two articles from a few months ago: UK Energy security and The European Gas Market, both by Euan Mearns.

Now that the news that the Forties pipeline has to close down is known, the blame game has started:

> UK resists fuel curbs despite strike The UK is “nowhere near” having to impose emergency powers to restrict fuel supplies to essential users, the government insisted on Sunday, despite a strike forcing the closure of a pipeline that carries nearly half of Britain’s North Sea oil. (...) But the Conservatives sought to make political capital from the unrest. On Sunday, they argued that the strike was a byproduct of his weakness. “Whether it is teachers or whether it is oil workers or whoever else, they’re actually saying we can push this guy around,” David Cameron told the BBC. The Tory leader argued that Mr Brown was indirectly to blame for the dispute because of his changes as chancellor to employer pension schemes. “Who is the man who wrecked the British pension system? He is the prime minister,” Mr Cameron said. The Grangemouth workers are protesting over the company’s intention to close their final-salary pension scheme to new employees from August 1. Ineos has offered to suspend plans to make existing employees start making contributions, pending further talks.

I'd like to flag just a few points that seem to be typical of our times, and maybe warrant making this a symptom of the Anglo Disease, ie the wholesale domination of our economies by reckless financial capitalism:

- the strike is about company-provided pensions (the unions are fighting a plan by the owners to not provide the same pensions to new hires as existing workers have, and to change rules on existing ones). With falling or stagnant stockmarkets, market-based pension funds, especially those run by corporations on behalf of their workers, are in trouble and force those corporations to provide top-ups to meet their obligations. Companies are looking for ways to reduce their liabilities, and pension funds and contributions are high on the list of "fat" to be trimmed in the never-ending quest for "efficiency" at the expense of workers;

- in line with that, you can of course read outraged quotes from corporate shills blaming unions for "holding the economy to ransom." The problem is always unions, and workers, and never management and their decisions - whether to cut "fat" or to run the company in ways that make it vulnerable to changes in the value of its pension funds because of stock market movements; in other words, the legitimacy of cutting on pensions (and effectively reneging on obligations to workers) is taken as a given in all public discourse on the economy;

- typically, the strike is taking place in a bit of infrastructure that was spun off by BP: the Forties pipeline system, built initially for the Forties oil field, and the refinery it fed, but now extended to many other offshore fields and onshore facilities. BP has kept the pipeline system but sold the Forties field to Apache and the refinery to a private equity fund. But these bits still operate together as they are all still part of a coordinated industrial complex that needs to be run, in practice, as a whole. Losing power or capacity in one bit can trigger closures in other activities, with knock-on effects. Separating ownership of various bits is all the rage these days (whether it's called deregulation, unbundling, promoting competition, breaking monopolies, etc...) and it's been a favorite hunting ground of investment funds, and in particular highly leveraged private equity firms. Ineos, the owner of the refinery, is the happy carrier of several billion pounds of debt along with it... Resilience, and industrial common sense have lost out to short term financial return requirements...

- amongst the knock-on effects in this case are the consequences not just on oil markets, but also on natural gas markets. Lost production amounts to 700,000 b/d of oil, and 2mcfd of gas, just under 1% of world production in each case. Oil markets are already strained, and that lost capacity is further inflating things. But shortages would be localised, and are actually unlikely given the available stocks in the area, unless panic spreads.

  On the gas side, on the other hand, it's a different story: the UK market has been built around the assumption that there would be permanent oversupply, and supply would "competitively" adapt to demand to provide market balance. Now, however, the country's production is declining sharply and it needs to import increasing volumes. With very little storage capacity, a legacy of the days when you just had to turn gas fields on or off, lost production will translate rapidly into shortages and have immediate impact on natural gas prices. The markets will "provide", in the form of demand destruction from industrial users with interruptible contracts, but is that a serious way to run an economy in the long term?

- finally, it is worth noting that a small local conflict by just a thousand workers will have a global impact, pushing prices of our most precious commodity up worldwide (the run-up in the past few days was already linked to expectations surrounding this strike). This is both a sign of our increased vulnerability to a tight oil supply/demand balance, and possibly a sign of hope that the balance of power between financiers and the rest of the world is finally changing as reality (and in particular physical and human bottlenecks) reasserts itself against the mad rush for short term profit.

Infrastructure *matters* whether it is transport, basic industry or institutional frameworks. You can only ignore it for so long. Countries that do infrastructure well (and which include people in what is meant by "infrastructure") are likely to do a lot better in the long run.