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For E Committee

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To: MR LANKESTER ✓
From: SIR KENNETH BERRILL

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23/7

North Sea Oil and Gas: Security of Supply

1. The Government is unfortunately faced with the need to meet the bulk of its £1bn. sale of assets in the financial year 1979/80 by the sale of some combination of BP shares and BNOG/British Gas assets in the North Sea. There are many facets to this difficult choice but an important issue is the effect of the decision on security of supply of oil and gas to the United Kingdom market.

BP Shares

2. As far as security of supply is concerned, it has to be recognised that ownership of BP shares is virtually irrelevant. BP regards itself as a multinational company (only 15 per cent of its activity is in the UK market) but more than this it is always preoccupied with the need to demonstrate that it is independent of the UK Government. The interpretation of the 'Bradbury letter' which has been followed for many years has made the British Government's holding of BP shares non-operational from this point of view. BP have managed to get British Governments to say publicly that they do not interfere in the commercial operations of the company. (It is argued that this declaration is required by the Securities and Exchange Commission if BP share issues are to be offered in New York.) BP lose no opportunity to try to get British Governments to repeat that assurance. But, more than this, in practice their determination to achieve an arm's length relationship means that often it is easier to persuade an American company (e.g. Texaco or Esso) to favour the UK market in their supply policy than it is for a British Government to persuade BP.

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BNOC

3. The Government of every country which produces oil and gas in substantial quantities does its best to ensure preference for its own market. This is not necessarily achieved by nationalisation. But where, as in North America, there is no Government ownership, there is instead an extremely detailed bureaucratic control.

4. In Canada there are two levels of control: the State control in Alberta (80 per cent of Canadian output) and the Federal control. The control is very detailed (well by well, period by period). In the United States the bureaucracy is so complex that it covers output, pricing and movement of oil and gas inside the United States.

5. The control of exports is a prime requirement of both the Canadian and American system. The Americans allow no export at all and require all the Alaskan production to be brought down to the mainland US even though the natural destination for Alaskan production would be Japan. Here in Britain we would not like to see the complex bureaucracy which is in part responsible for the regional shortages of oil products which have plagued the United States.) But the fundamental point is that we have to operate within the constraints of membership of the EEC which would not allow us to institute the detailed and overt export controls which exist in North America. So there is more than just convenience in having a BNOC as part of our control mechanism: it enables the Government to keep within the EEC rules by distancing itself from the control operations. Also BNOC can, given time, recruit 'oil men' in a way in which it would be difficult for a Government Department.

6. 'Knowledge is power' and to some extent the ability of the Government to achieve security of supply (and an adequate tax take) depends on its knowledge of what is going on in the oil and gas fields. This cannot be achieved by operating only as an oil and gas 'trader'. There is a great deal to be said for the British authorities (BNOC) retaining a seat on all the Operating Committees. The oil companies will not like this - one

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oil executive is said to have described the situation as equivalent to 'having the Camp Commandant on the Escape Committee'. But that very resistance is an indication of the importance from the Government's point of view of keeping both this crucial source of information and oil experts on their pay roll capable of interpreting it.

Conclusions

7. From a strictly 'security of supply' viewpoint, it would be preferable to sell BP shares rather than to transfer BNOG oil to BP because in the past BP has proved less amenable to the UK Government's pressure than any other major oil company. Apart from this, the Government will need to retain a machinery to monitor and influence the destination of North Sea oil and gas and, given our membership of the EEC, operating through BNOG is the only route we have.

8. Membership of the Operating Committees of each field is a very important source of information which cannot be achieved by keeping a purely trading function.

9 I am sending a copy of this minute to Sir John Hunt.

KB

23 July 1979