



SECRETARY OF STATE FOR ENERGY  
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Tim Lankester Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street

26 July 1979

*Dear Tim*

I attach a copy of the final version of this statement. It is as agreed between the Prime Minister and my Secretary of State, except that in para 7, "BNOC should no longer have a seat on every Committee operating the North Sea\*" has been altered to "BNOC should no longer sit on every committee", which may in some cases save the labour and expense of renegotiating the operating agreements.

I am copying this letter and enclosures to the Private Secretaries of members of E Committee and of the Chancellor of the Duchy of Lancaster, the Chief Whips in the Commons and in the Lords, the Paymaster General and the Secretaries of State for Scotland and Wales; also to the Chief Press Officer at No 10 and to Martin Vile.

*Yours sincerely,  
John Arnott*

John Arnott  
Private Secretary

\* Fields

STATEMENT ON OIL POLICY BY SECRETARY OF STATE FOR ENERGY

With permission, Mr Speaker, I will make a statement about the Government's oil policy and the British National Oil Corporation.

2. The Government has reviewed the full range of the BNOC's activities. It has also had much in mind the serious decline in offshore activity.
3. After discussions with the Chairman and the BNOC Board, the Government has concluded that BNOC can best serve the nation's interests in a continuing<sup>but</sup> much more limited role than at present, and that the pattern of ownership of the Corporation's assets, at present exclusively in State hands, should be changed.
4. The House will be aware that the BNOC is engaged in two main activities. It is an oil trader on a large scale, mainly by virtue of its right through participation agreements with other oil companies to purchase 51% of most of the oil produced on the UK Continental Shelf. And it has a substantial enterprise in the North Sea, engaged in exploration, development and production.
5. As far as the trading activity is concerned, the Government has decided that the Corporation's access to oil through the participation options should be retained. Although in conditions of major shortage I can take powers under the Energy Act 1976 to control and direct oil movements, in conditions of limited shortage, such as we are now experiencing, BNOC's direct access to 'participation' oil, together with royalty oil, strengthens our position. Of course, quantity and thereby security of supply also depends on economic pricing, and that is why we have removed the price controls which we inherited.
6. As to BNOC's offshore assets and interests, the Government believe that those should be more widely owned. This objective can best be achieved through the disposal of assets from State hands or by the introduction of private capital into the operation. I will be making a further announcement in due course.
7. Furthermore, the Government has decided on a number of steps in the area of BNOC's exploration, development and production activities.

The Corporation has too many licence obligations and commitments, along with a number of privileges vis-a-vis other oil companies. These features are themselves a source of the instability and lack of confidence that have come to characterise the offshore oil exploration scene - which it is essential for us to change. The Government has decided, therefore, that BNOC's preferential position in future licensing Rounds should be ended, and that its present over-extended exploration commitments should be reduced. The Government also intends to end BNOC's special access to Government finance through the National Oil Account. These changes follow the Chancellor's announcement that BNOC will be liable to PRT in common with other oil companies, and my announcement ending the previous policy of giving BNOC a first refusal whenever an interest was assigned between companies. I have also decided that the Corporation's statutory role as adviser to the Government should be removed, and that the Corporation should no longer sit on every committee operating the North Sea fields where it has no equity stake. I shall be strengthening my Department's resources so as to ensure that the Government, in the exercise of its regulatory role, is fully able to protect vital national interests.

8. Some of the changes I have outlined will require legislation, which will be introduced later in the session.

9. The moves announced today will in themselves encourage companies to explore more widely and to invest more confidently in development. We must encourage more investment both in drilling on already licensed territory and in deeper waters on the UKCS. Our decision to examine with the industry the problems of the so-called marginal fields should also be of positive help.

10. In addition I am today confirming the first batch of awards of licences under the Sixth Round (and the announcement of further awards will follow shortly). I am also well advanced with the preparation of a 7th Round of licensing.

11. I believe that all this will make a major contribution to restoring a high level of exploration activity on the UKCS after the recent very serious slow-down.

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