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Qa 04139

To: MR LANKESTER
From: SIR KENNETH BERRILL

Oil Supplies

1. On 31 May I minuted Mr Stowe on the subject of oil supplies to the United Kingdom economy over the coming winter. You told me that the Prime Minister had raised two questions:

- (i) What leverage could the UK Government exert on the private multinational oil companies?
- (ii) What powers did BNOG possess over oil supplies and what would be involved in BNOG exerting those powers?

In what follows I shall attempt to answer those two questions. I regret that the answers must of necessity go into some detail.

HMG Leverage over Multinational Oil Companies

2. Relations between Governments and oil companies have much in common with a game of poker - and this is especially so when supplies are short and all countries are struggling for favourable treatment. The pressure cannot be too overt or the EEC Commission will step in (as they already have on the UK claim that we have the power to require that oil from the UK Continental Shelf be first landed in the UK). The French Government is particularly adept at this game of poker and they make full use of their State controlled company ELF/Aquitaine. We in the UK have not done badly. All the participation agreements were negotiated 'voluntarily' and though the Commission may argue, the oil companies have not protested against our 'landing requirements' nor our 'expectation' that oil companies will not commit substantial quantities of North Sea crude more than 2 years ahead.

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3. The fact is that a UK Government, if it has the political will, can exert considerable discreet pressure on an oil company because it can influence that company's operations in the North Sea. The powers cover the issue of future exploration licences, the granting of development consents, approval of production levels, the extent of gas flaring, etc. The Department of Energy could, if it were so instructed, take a very long time examining the enormous amount of technical detail which a company has to supply to it and just be very slow in coming to conclusions. For these companies, time is money.

4. The consultation arrangements under the Participation Agreements provide readily available fora for the Government discreetly to make its wishes known and for the companies to respond. The companies could, if they so wish, exert a preference for the UK without fear of effective detection and recrimination by our partners. There is no doubt that the French will be leaning heavily on them at this moment and that it will be extremely difficult for us to prove discrimination in favour of France.

BNOC's control over oil supplies

5. UK oil demand is currently near 2m. barrels per day (approaching 100m. tons a year). The attached table gives the forecast for BNOC's access to oil over the next 18 months. The figures are complicated (and would be reduced if parts of BNOC were sold off). The complications are, in a way, helpful, in that they make it difficult for outside observers (including the Commission) to monitor just what is going on. But the general picture is of (a) a doubling of BNOC access to crude oil over the period; and (b) the ratio of 'BNOC oil' to UK total consumption rising to around 40 per cent by end 1980. This oil is not all freely in BNOC hands.

Other features of BNOC's oil availability are as follows -
(a) The bottom line of the table shows the 'sale back' agreement to Shell, Esso, Mobil and Texaco. At the end of 1980 this sale back oil will be 14 per cent of UK consumption. This oil is all safely 'UK use'. BNOC is obliged

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to sell this oil to the four companies provided they use both the BNOC oil and their own 49 per cent share of the oilfields in question to help supply the UK market.

(b) Most of the remaining BNOC crude is sold to companies on forward contracts. BNOC has no refining capacity and has to make forward arrangements to dispose of it. The current distribution is 35 per cent to the UK and 65 per cent abroad (35 per cent Europe and 25 per cent North America). Some of the forward contracts expire this month, and some in September, but the bulk are till December and BNOC would need to give 3 months notice if it did not intend to renew. BNOC has, however, put a 'force majeure' clause in all its contracts which explicitly gives the Secretary of State for Energy the power to require immediate cancellation. Given the present supply position the exercise by the Secretary of State of such a requirement would be likely to excite international protest. But BNOC is confident that such a step would not be necessary. If the Government told BNOC to ensure that the great bulk of 'BNOC oil' was retained in Britain (or at least an equivalent amount of lower quality crudes required for our own refinery balance) this could be achieved. In anticipation of this, BNOC has taken some steps in its contractual negotiations - for example, telling companies that their BNOC sales contracts may not be renewed if equivalent volumes are not available to the UK and by biasing its contracts policy towards UK subsidiaries of multinational oil companies where the UK's powers of leverage are potentially greater.

6. I repeat, the relationship of Governments to multinational oil companies is very much a poker game. It is a game where most of the action takes place discreetly and is incapable of external monitoring. Some of our neighbours, especially the French, are experts at it. With North Sea oil, BNOC, the participation agreements, etc., we go into this poker game with very strong cards - even if we may not be very experienced players. Given North Sea oil, UK public opinion will expect to see adequate treatment of the UK market. This can be achieved but the Department of Energy and BNOC would need to know what is expected of them.

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



10 DOWNING STREET

From the Private Secretary

SIR KENNETH BERRILL
CENTRAL POLICY REVIEW STAFF

The Prime Minister was grateful for your minute of 1 June, and for your further minute of 5 June, on oil supplies. In the event, as you will see, the Prime Minister has decided to set up a Cabinet Office chaired Group to look at the energy supply prospect over the next twelve months, and no doubt most of the points which you raised in these minutes and in the draft letter which you provided will be taken up by the Group.

I am sending a copy of this minute to Martin Vile (Cabinet Office).

T O I ANKESTER

6 June 1979

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