



10 DOWNING STREET

PRIME MINISTER

MAGNUS INAUGURATION: 14 SEPTEMBER

A folder of information about this ceremony was sent to you in Tuesday evening's red box. I am afraid I cannot find this folder among your present boxes, so am unable to attach the additional briefing for this occasion which was sent to Chequers last night.

If you have the original folder, please could I ask you to incorporate the briefs below (you should already have Flags A and C).

Thank you.

Debbie

10 September 1983

*We need  
some more ideas  
in the speech.*



SECRETARY OF STATE FOR ENERGY  
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Michael Scholar Esq  
Private Secretary to the  
Prime Minister  
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9 September 1983

Dear Michael,

MAGNUS OILFIELD INAUGURATION, 14 SEPTEMBER

As indicated in my letter of 2 September, we have updated the background briefing for the Magnus inauguration. Please would you substitute the attached for the background you have.

I am copying this letter and the briefing to the Private Secretaries to the Chancellor of the Exchequer, the Secretaries of State for Scotland and for Trade and Industry, Mr Ridley and Mr Baker who we understand have accepted invitations to the inauguration.

*Miss C E Brooks*

MISS C E BROOKS  
Private Secretary



MAGNUS OIL FIELD INAUGURATION CEREMONY 14 SEPTEMBER 1983

BACKGROUND BRIEFING

SECTIONS

1. KEY POINTS
2. THE FIELD
3. BP'S ACTIVITIES IN THE UK
4. OIL POLICY ISSUES: FISCAL REGIME  
DEPLETION POLICY  
WORLD OIL MARKET  
UK GAS SUPPLIES: SLEIPNER
5. THE INAUGURATION CEREMONY

ANNEX A MAP OF FIELD LOCATION

ANNEX B TABLE OF UK CONTENT OF MAGNUS



## 1. KEY POINTS

### MAGNUS:

- most northerly UKCS field
- estimated reserves 565M barrels
- peak production 120,000 barrels a day
- heaviest UKCS steel platform
- UK offshore supply industry's share of orders 86% [CONFIDENTIAL].

### BP ACTIVITIES:

- Approval of South East Forties development plan deferred end July because D.En not satisfied that BP proposals would ensure maximum economic recovery of oil. Joint BP/D.Energy study under way to aid agreement on optimum method of development.
- BP sale of up to 12% of interest in Forties field. Government will have to consider all the implications. No assurance has been given that changes to the licence will be approved.
- BP's 8p petrol price increase in July halved as a result of market pressures. 4-star price steady at 183.7p.
- Company profits £74M in Q1 1983. Upstream profits increased, downstream losses reduced.

### OIL POLICY ISSUES:

- Fiscal concessions on North Sea taxes and royalties in the last budget welcomed by companies as stimulus to exploration and development. Cost to HMG - £800M over 4 years.
- Depletion assurances to companies: no production cuts before end 1984; no case for development delays.
- UKCS oil production 1983 forecast in range 95-115M tonnes [CONFIDENTIAL: latest forecast about 110Mt].
- World oil market remains fairly stable. UKCS spot prices have been up to £1.00 above official term prices; but have moved down a little recently.



## MAGNUS INAUGURATION: 14 SEPTEMBER

### BACKGROUND

#### 2. THE FIELD

1. Magnus, operated by BP Petroleum Development, was discovered in March 1974. Approval for its development was given in 1978. It lies about 200km (120 miles) north east of Shetland (see map, Annex A), the most northerly field on the UK Continental Shelf (UKCS) to date. Water depth in the area is 186 metres (610 ft), also a UKCS record.

2. Magnus initially produced oil (low sulphur crude) from two of its seven sub-sea production wells on 14 August, at a rate of 15,000 barrels a day. It is the third UK offshore field to come onstream this year. Its estimated recoverable reserves are 565m barrels (75m tonnes). The remaining subsea wells are being brought progressively onstream, followed over a longer period by the drilling of production wells from the platform itself, with output rising rapidly to a plateau of 120,000 barrels of crude oil a day, plus some 9,000 barrels a day of gas liquids.

3. The drilling platform is a four-legged single steel structure, weighing over 34,000 tonnes and standing at a height of 212 metres. It is one of the biggest in the world. It was built at Nigg Bay by Highland Fabricators. Magnus will not be the last of the large steel platforms, but the emphasis is shifting towards subsea developments and floating production systems which cost less. A number of technical problems need to be overcome however before these methods become as efficient as fixed platforms in recovering oil.

4. Oil and gas liquids will be transported by pipeline to the Ninian Central platform, 91km to the south. They will then flow through the Ninian pipeline - along with oil from Ninian and Heather - to the Sullom Voe terminal. Dry gas will start to be produced from Magnus later this year, at a rate of 60 million cubic feet a day, via the newly-commissioned Northern Leg pipeline and the "Flags" system (Far North Liquids and Associated Gas System) to St Fergus.

#### 5. Economic information [CONFIDENTIAL]

- The net present value of the Magnus scheme in pre tax terms is \$5.75 billion of which the Government's total share in taxes will be £4.75 billion (both at a 5% discount rate).
- BP's real rate of return is projected to be 18%.
- Total development costs are projected by the Department of Energy to be about £1.4 billion.
- During the period 1984-88 Magnus will provide the Exchequer with a total of £2.3 billion in tax revenue at 1983 prices.



## 6. New Technology

Advanced technologies employed on Magnus include some 130 microprocessor based systems. They include a British-developed gas and fire detector system, controlled by a central visual display unit, a new generation of crane safety mechanisms, and a device for measuring stress of the platform's piles and foundation during its life. This will help new designs to be geared more exactly to North Sea conditions.

## 7. UK industry contribution

UK industry's share of orders for Magnus has been high - [CONFIDENTIAL 86% overall] (see table Annex B). The start of the project moreover coincided with the national steel stoppage, which resulted in a higher proportion of steel orders being placed abroad than would normally be expected. All credit is due to BP for execution of the project on schedule, and to British industry for producing the substantial majority of goods and services required.



### 3. BP ACTIVITIES IN THE UK

#### Production interests

1. BP operate two other producing North Sea oil fields and one gas field:

Forties (94.8% share), with four fixed steel platforms, the largest North Sea producer at about 450,000 barrels a day;

Buchan (currently 49.2% share), with a floating production facility, and oil production at about 45,000 barrels a day.

West Sole (100% BP) in the Southern Basin, the first ever UKCS field to start production, currently supplies about 4% of UKCS gas production.

2. BP are involved in a number of future offshore oil and gas projects. These include:

#### (a) Oil and condensate

##### South East Forties

There has been recent press comment about this field. BP plan to develop it as a subsea satellite system connected back to Forties 'A' platform. D/Energy favours a small fixed platform for greater oil recovery. BP are to undertake further work jointly with D/Energy with the objective of reaching an agreed view on the best method of developing the field to secure maximum economic recovery.

##### SWOPS (Single Well Oil Production System)

This is a tanker shaped vessel used to develop small oil accumulations which are uneconomic to develop with a fixed facility. Discussions with D/Energy are at an advanced stage on the use of the first SWOPS vessel in the North Sea.

##### Andrew

A relatively small field (jointly owned by BP and a Phillips Group Consortium), expected to be developed from a small four legged fixed steel platform.

(The project had been shelved, but is now being actively reappraised in the light of the tax changes in the last Budget.)



### Brae area

BP are very encouraged by recent drilling on their licence interests in the Brae area and are confident that there will be development prospects.

### Columba

BP and Chevron are currently discussing the possible development of Columba (South West Ninian) and have yet to agree who will be operator.

### Bruce

A gas condensate field jointly owned by BP and Hamilton Brothers. Development Plan expected sometime in 1985.

### (b) Gas [CONFIDENTIAL]

BP will shortly be opening discussions with D/En on the development of four medium sized gas accumulations in the so called North Lobe area of the Southern Basin which could come on stream in the late 1980s. Total development costs would be some £1200M and gas output could meet some 8-10% of UK needs in the early 1990s.

3. BP are the operators of the Sullom Voe terminal, one of the world's biggest, with a daily throughput of some 1.4 million barrels a day. It handles approximately half of all the oil produced on the UKCS.

4. In the Eighth UKCS Licensing Round, completed in May, BP were successful in the two cash tender bids they submitted. In the "discretionary" part of the Round, they received awards for 4 out of 8 blocks applied for.

### Refining and Marketing

5. There remains substantial over-capacity in the refining business, although the marketing side of the oil industry is now showing more reasonable returns in the UK, with improved prospects for refiners.

[COMMERCIAL IN CONFIDENCE]

BP are believed to be considering closing their refinery at Llandarcy near Swansea. D/Energy is concerned that this may prejudice security of oil product supply in the UK. BP are aware of this concern.

6. Despite the fall in international crude oil prices, BP increased petrol prices by 8p/gallon in early July in an attempt to



reduce losses. A number of reasons were claimed: increasing spot crude and product prices; fall in exchange rate; increasing demand over and above normal seasonal pattern. However BP in effect led the market up because they saw an opportunity to make a profitable price rise stick. The 8p increase was subsequently halved following Esso's decision to increase prices by only 4p/gallon. The 4 star price of 183.7p seems to be sticking, but European spot prices would not at present permit a higher price to be sustained.

#### BP-Company results

7. BP published their quarterly results on 2 June, showing a £74M profit for Q1 1983, down from £91M in Q1 82. On a replacement cost basis profits were £201M (Q1 83) compared to £102M (Q1 82). Upstream profits increased, mainly due to increased production. Downstream losses were reduced to £15M, compared to £114M in Q1 82; at the same time, losses in chemicals were cut from £41M to £15M.

#### Sale of interest in Forties field

8. BP's proposal to sell up to 12% of their interest in the Forties Field has recently been reported in the press. The proposal is expected to appeal to companies who have incurred exploration costs on the UKCS but do not have revenues from producing fields against which to set these costs for tax relief. The Secretary of State for Energy has to give consent to the transfer of licence interests. It has been made clear that the BP proposal - which raises major issues - is under consideration. No assurances have been given as to the Government's decision.



#### 4. OIL POLICY ISSUES

##### UKCS Fiscal Regime

1. The Finance Act 1983 enacted phasing out of Advance Petroleum Revenue Tax (APRT) by December 1986; immediate PRT relief for expenditure on exploration and appraisal; and doubled (to one million tonnes pa) the PRT Oil Allowance for "relevant new fields" (ie offshore, outside Southern Basin, and approved after 1 April 1982). Total effect - £800M over next four years.

2. The Act allows oil companies to offset exploration expenditure against tax on any field, not just against tax on eventual profits from the field explored. This has stimulated interest among companies who have incurred exploration costs in acquiring interests in producing fields (see Section 3 para 8).

3. The Petroleum Royalties (Relief) Bill, abolishing royalties for "relevant new fields" completed its Commons Committee Stage on 19 July. Enactment is expected this Autumn. Although it will only reduce the marginal tax rate once fields have exhausted all their tax allowances from 89.5% to 88%, it will have a much greater impact on marginal fields, since it removes a major tax which is not based on profits. Budget proposals for amended PRT treatment of shared use of assets (eg pipelines) will be introduced in Parliament this Autumn in an Oil Taxation Bill. A review of the fiscal regime for the Southern Basin will be carried out during the coming months, as foreshadowed in the 1983 Budget.

4. At the World Petroleum Congress on 28 August-2 September, Mr A T Gregory, who is both President of the Institute of Petroleum and a senior officer of BP, said that the budget changes would make some 1 and 1.5 billion barrels of extra oil worth developing. It is difficult to quantify the increase in development activity - but we do know that the Budget measures have stimulated it significantly and a number of new developments are now in the planning stage. The Minister of State for Energy said at the Offshore Europe exhibition at Aberdeen last week that some 30 new offshore developments of various kinds (oil, gas, pipelines, additional platforms) were likely to come forward over the next 2-3 years.

##### Depletion policy

5. The Energy Secretary has powers to limit petroleum production in certain circumstances, but successive Governments have been opposed to doing so in the interests of stability and maintaining confidence in the North Sea.

6. The so-called "Varley assurances" of 1974 constrained the Government's freedom to impose development delays on fields discovered before the end of 1976, and to impose production cuts on finds made under First-Fourth Round licences. These assurances were reaffirmed in 1980, and in 1982 Mr Lawson announced



that the Government would not impose production cuts at least until the end of 1984, even though the protection of the Varley assurances had run out for some fields. Nor could development delays be justified. But reserve powers of intervention would be maintained in case of emergency or radical change in the situation. This continues to be the Government's position.

7. UKCS oil production in 1983 is forecast to be within the range 95-115 million tonnes (including natural gas liquids). Output for the first 6 months is consistent with this. The latest forecast [CONFIDENTIAL] is that it will be some 110mt of crude oil and natural gas liquids. Production is expected to peak in 1984 or 1985. The rate of decline thereafter will depend on the number and size of new fields coming onstream.

#### World Oil Market

8. The market remains relatively stable, with spot prices generally above official term prices. (UKCS spot prices have been up to \$1.00 above term but have moved down a little recently) Continued price stability depends on OPEC's ability as marginal supplier to maintain price and production discipline. The agreement reached by OPEC in March held together when demand for OPEC oil was exceptionally low (15mbd).

9. The market was initially dubious, but confidence subsequently strengthened and spot prices have risen above term levels. The next test will come when demand rises significantly above the 17.5mbd ceiling. Current OPEC production, at perhaps up to 18.4mbd, is already above the ceiling and a meeting of the OPEC Monitoring Committee has been brought forward from 23 September in Abu Dhabi to 15 September in Vienna. This may be followed by an extraordinary Ministerial meeting - as presaged at the OPEC meeting in Helsinki in July - to revise the production ceiling and individual country quotas.

10. This will not be easy. A further test will come in Spring 1984 when a further mild Winter and consequent higher than expected stocks could lead to reduction in demand for OPEC. In the longer term, however, overall demand is likely to pick up and much of this will have to be met by increased OPEC production.

11. Despite the apparent stability, the market remains vulnerable to interruption and there is evidence of underlying concern about a possible escalation of the Iran/Iraq war which could adversely affect supplies.

#### UK Gas Supplies: Sleipner

12. Contracted gas supplies will decline sharply in the late 1980s/early 1990s. Considerable new supplies need to be contracted to meet forecast UK demand.

13. New developments of UKCS gas and gas condensate fields will meet at least part of this need, but how large a part is uncertain.



BGC believe substantial additional imports are necessary, and are currently negotiating to buy gas from the Norwegian Sleipner field to meet some 20% of demand in the 1990s. BP have maintained publicly that new imports are unnecessary, and that buying Sleipner will cause the delay of UKCS developments. Clearly they want to ensure a strong market for gas from their own Southern Basin and Bruce fields.

14. HMG's view is that desirability of Sleipner purchase depends on price. As price rises so UK gas demand falls and the chance of UKCS gas supplies being adequate increases. BGC have been told to refer back to HMG before finalising any deal with the Norwegians. BP know this is the position, and are likely to continue to lobby against buying Sleipner.



## 5. THE INAUGURATION CEREMONY

1. BP have arranged a major ceremony for the inauguration. As well as the Prime Minister the Chancellor of the Exchequer; the Secretaries of State for Energy and Trade and Industry; the Financial Secretary and the Minister for Information Technology will be present at the London ceremony. The Secretary of State for Scotland will be at BP's offices in Dyce and the Minister of State for Energy will be on the Magnus platform itself. There will be a TV satellite link between these 3 locations. The key events in London will be a film of the Magnus development, the Prime Minister's and the Chairman of BP's speeches, and the remote control unveiling of a plaque on the Magnus platform. The Prime Minister will press a button which will achieve this after having asked Mr Buchanan-Smith (on the platform) and Mr Younger (at Dyce) whether the relevant electrical circuits are open. The Chairman of BP will invite the Prime Minister to press the button when all is confirmed. The unveiling will be followed by a private lunch for the key guests.

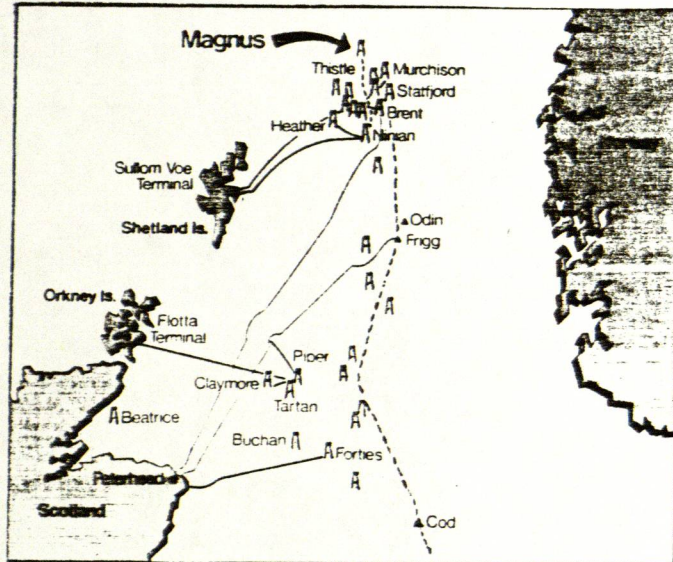
2. The London audience will also include the Chinese Minister of Petroleum; Mr Tang Ke, who will be at the end of a 10-day visit to the UK, and a number of MPs.

### TV Satellite Link

3. The Magnus ceremony is the second such inauguration involving a satellite transmission from an oil rig. The first was undertaken when HRH The Duke of Edinburgh inaugurated the Piper oil field in February 1980. He was on the platform itself and the event was watched live on the mainland.

4. Magnus is the first remote inauguration. The Prime Minister will be able to watch the results of the London ceremony taking place on the platform. The satellite will be the European Space Agency's Orbital Test Satellite (OTS); small dish terminals will be used on the platform and at Fleet House (British Telecom); London. The link to Aberdeen will be by land-line.

LOCATION OF MAGNUS



UK INDUSTRY CONTENT OF MAGNUS INDICATED BY QUARTERLY RETURNS TO D/ENERGY

	78	79	80	81	82	83	TOTAL
SPEND £ MILLION	8.746	520.963	52.875	93.806	31.868	6.454	714.712
UK SHARE £ MILLION	8.746	475.216	37.360	66.972	21.339	4.688	614.321
% UK	100	91	70.1	71.4	67	72.6	86

19 SEP 1983



MAGNUS INAUGURATION - WEDNESDAY, SEPTEMBER 14

Opposite on file is the following briefing on the Magnus inauguration ceremony at BP's Headquarters in the City:

Flag

- A - Copy of my minute setting out the programme you have agreed to undertake.
- B - Draft 10-minute speech (which I have cleared with D/Energy and Scottish Office).
- C - Agreed text for speech by BP's chairman, Peter Walters, who invites you to inaugurate the project.
- D - Magnus inauguration booklet.
- E - London programme (your movements highlighted).
- F - Department of Energy briefing (please note BP disappointed that D/Energy turned down their South East Forties oilfield development plan in July - talks continue).

I would add the following points of emphasis:

- BP would like you to be there promptly for 11.30am;
- an Australian team, which that day is despatching 100 photographers all over Britain to produce a book "A day in the life of Britain", will be among the media. Their aim is to get informal shots of you at the ceremony. They have produced excellent photo-records, published in coffee-table book form, of similar days in Australia and New Zealand;
- there is a possibility of disruption with telecommunications because of the Mercury row. BP have made cover arrangements which would mean, if the worst came to the worst, the loss only of pictures (not sound) of your speech in Aberdeen;

- you are expected to speak for an absolute maximum of 10 minutes;
- we shall need to consider early next week (when the state of play is clearer) whether you need to say anything about sales of BP assets over and above your reference to the tax regime on page 12 of your draft speech.

*live*

B. INGHAM  
9 September 1983

~~Can't refer to the  
tax regime for reasons  
you know~~  
mb