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EUROPEAN COUNCIL, LUXEMBOURG

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NORTH SEA OIL POLICY

Note by Department of Energy

1. Paragraph 7 of Annex A to this brief should be deleted and the following substituted:

7. In November 1979 the timing of BNOC's increase was premature, albeit by only a few days and attracted much international criticism. Further increases in 1980 have been better timed; the decision being unannounced for longer giving the impression that the UK was last to come into line (although the effective date of increase was similar to that for other producers). In addition the price has not exceeded the official prices of any of the comparable African crude. During January UKCS crude prices were probably below the market level and settlement was achieved only through pressure being applied to a number of companies. The most recent increase of 50 cents for UK Forties (which reached the press on 16 April and is to be effective from 1 April) brings the price to \$34.25/barrel. The increase was not uniform across all grades and can be explained as restoring lost differentials. Many OPEC countries in fact charge premia in addition to the official price. Against this background UK prices look very moderate (see Appendix 4).

~~2. A revise of Appendix 4 to Annex A is attached. The existing appendix should be destroyed.~~

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CRUDE OIL QUALITY COMPARISONS

1 Oil prices are related to the quality of the crude. In general crudes from Nigeria, Algeria and Libya are closest in quality to those of North Sea crudes.

2 There are two major aspects:

i) Yield differentials

The lighter the crude (in terms of specific gravity), the larger the yield of the higher value products like gasolene, naphtha and gas oil. From light North Sea and North African crudes these products may total 60 - 70% of the product yield, whereas Gulf crudes yield 50% or less of these products.

ii) Sulphur Content

The lower the sulphur content the higher the value of the crude, especially to purchasers in countries with strict pollution controls. North Sea and North African crudes contain only 0.1 to 0.3% by weight of sulphur, compared with 2% for Arabian Light and 3 - 4% in some other Gulf crudes.

3 Under normal market conditions, North Sea crudes could be expected to command a quality premium of about \$3 per barrel over Arabian Light.

12.
CRUDE OIL PRICE TRENDS.

ANNEX A
Appendix 2

\$ per b.

45

40

35

30

25

20

15

10

Spot price of
Nigerian light.

Official price
Nigerian light.

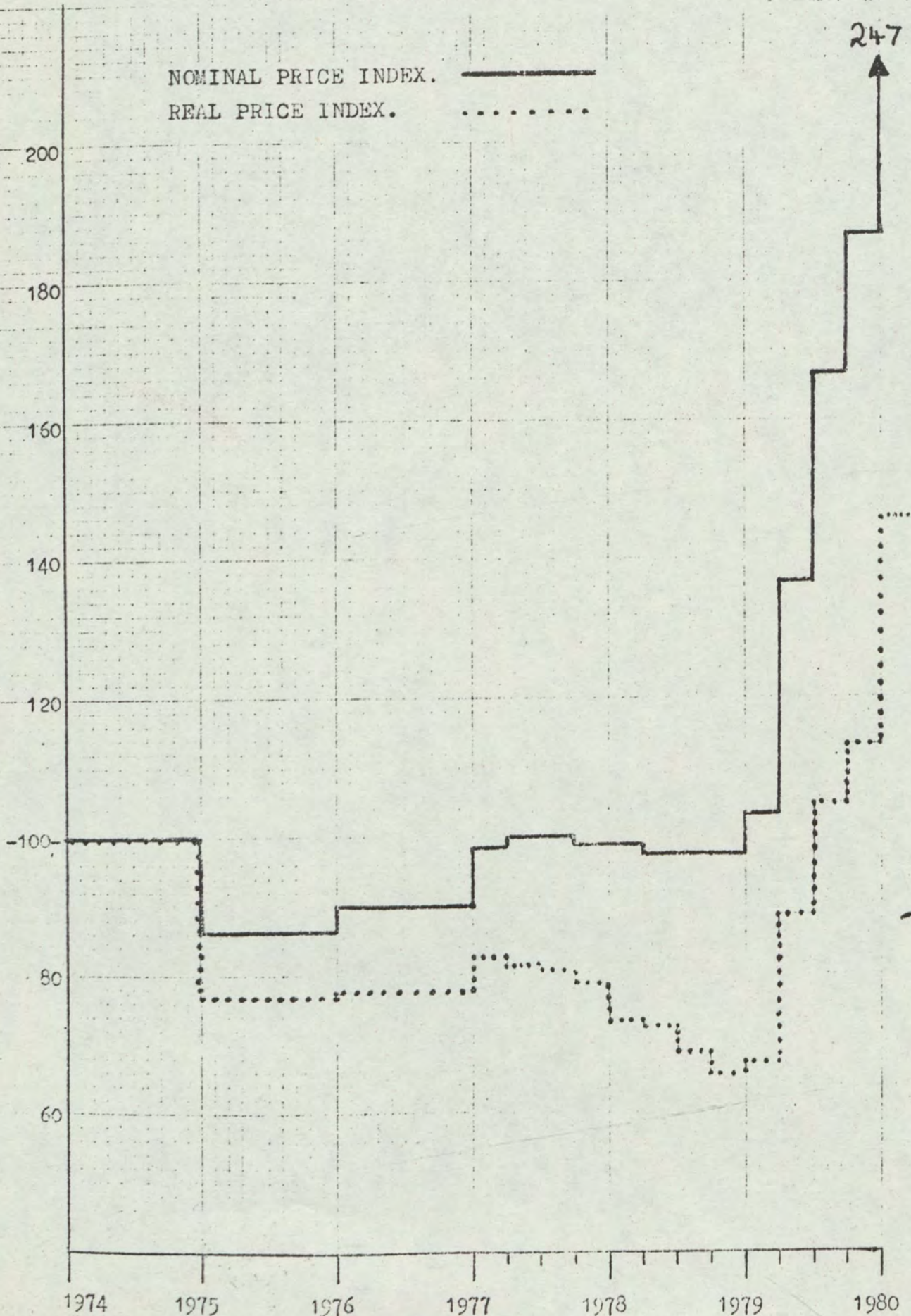
Official price
Arabian Light.

Unified Term Prices

Fragmented Term
Market

Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3
1975 1976 1977 1978 1979 1980

1 REAL AND NOMINAL PRICE INDEX OF ES SIDER (A U.K.C.S. TYPE CRUDE)
IN THE WORLD ECONOMY.



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Annex A

Appendix 4 (Revise)

\$ per barrel

COUNTRY/CRUDE	OFFICIAL PRICE	REPORTED PREMIA OR SIGNATURE BONUS	TOP TERM SELLING PRICE
Iraq Kirkuk	28.18	Up to 10.00 for additional volume	38.18
Libyan Es Sider	34.50	Up to 3.50	38.00
Iran Light	33.50	4.37	37.87
Nigerian Bonny Light	34.69	No information but prior to 1.1.80 3.00 for new contracts	
Algerian Saharan Blend	34.21	3.00	37.21
Qatar Dukhan	29.42	6.50	35.92
Indonesian Minas	29.50	6.00	35.50

These prices compare with a fixed term price with no extras of \$34.25/barrel for UK Forties.

Saudi Arabian crude at \$26/barrel is generally recognised to be under-priced.

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PRESENTATIONAL STATEMENT ON ENERGY IN THE CONTEXT OF THE
COMMUNITY BUDGET NEGOTIATIONS

1. Energy is of the greatest concern to all of us. It is a key international economic issue. The Community must find an adequate response to the need to conserve energy, develop alternative sources to oil, and reduce oil imports and consumption. The UK's relative strength in energy in no way sets us apart from these concerns.
2. Each Member State's resources of primary energy - coal, gas, oil or nuclear power - play a major role in achieving overall energy policies which will ensure the Community's security. The UK is already doing much. About a quarter of total Community investment in energy over the last five years has been made by the UK.
3. On coal, we are now investing some £600 million a year, approaching half of total Community investment in coal capacity. The gas fields of the Southern North Sea have been developed to the point where we no longer have to compete on world markets for the equivalent of over 30 million tonnes of oil a year.
4. And there has been the success of the development of the North Sea oil resources. £15 billion invested to date and production up from 1 million tonnes in 1975 to 76 million tonnes last year. We are planning for a vigorous exploration programme as the basis for the future development of North Sea oil.
5. We have done this because it is in our national interest, but it is also in the increasing interest of the Community as a whole. For example, from 1978 to 1979 the volume of North Sea oil supplied to the other Member States doubled to 22 million tonnes. This year it will be higher still. Twenty companies of other Member States are active in the North Sea. They have interests in 90 of the 217 current licences and thus have a stake in nearly half of the fields now in production or under development.

6. The UK is fully conscious that our relative strength in primary energy resources imposes responsibilities as well as giving us advantages. We will give full weight to the Community dimension in reaching our decisions. We will work with you on ideas put forward by the Commission, and on the development of a Community position for international energy discussions.

7. On coal, we believe there is scope for the Community to encourage more investment. On gas, we are ready to facilitate the transmission of Norwegian gas through our country to the Continent. In the development of North Sea oil, Community companies will no doubt continue to take advantage of the arrangements for licensing exploration and development. We shall be ready to have discussions with interested companies to this end.

8. We are maintaining the existing guidelines about sales of North Sea oil being made to Community and IEA destinations. This provides our partners with a valuable assurance of supply. When oil supplies are tight, but not yet requiring the application of existing Community rules for a situation of supply crisis, we will take account of the interests of the Community as a whole to the fullest extent we can. In such circumstances we would consider the scope for increasing North Sea oil production within the limits consonant with good oilfield management, and the need to avoid wasting scarce resources.

9. The UK shares the interest of Community purchasers in avoiding excessive increases in world oil prices, and maintaining an orderly market: we will continue to seek to ensure that our North Sea prices will follow and not lead world market prices for comparable crudes.

10. Finally, we share with our partners the determination to see nuclear energy further developed in safe and environmentally acceptable conditions. The JET experiment at Culham is a vital contribution to that end.

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ANNEX C

North Sea Oil Disposals

	1978		1979	
	Amount	%	Amount	%
			(provisional figures)	
<u>Total disposals</u>	51.2	100%	77.1	100%
UK	27.8		38.1	
Export	23.4	45.7%	39.0	50.6%
EC	12.2	23.8%	22.4	29.0%
Non EC	11.2	21.9%	16.6	21.5%

	1978	%	1979	%
<u>Exports</u>	23.4	100%	39.0	100%
Total EC	12.2	52.0%	22.4	57.4%
Belgium	0.4	1.7%	0.2	0.5%
Denmark	2.0	8.5%	2.9	7.4%
France	1.6	6.8%	2.7	6.9%
Ireland	-	-	-	-
Italy	-	-	-	-
Netherlands	2.9	12.4%	6.6	16.9%
W Germany	5.3	22.6%	10.0	25.7%
Other	11.2	48.0%	16.6	42.6%