

PRIME MINISTER

FUTURE OFFSHORE LICENSING

The previous Administration's policies for the development of our offshore oil and gas resources have contributed to a substantial drop in the rate of exploration and drilling for prospects. The industry maintain, and I entirely concur with them on this, that a boost is needed in the rate of licensing, if it is to be encouraged to get on with the costly and difficult job of exploring for the reserves which are thought to lie as yet undiscovered on our Continental Shelf, and which we need to find now if we are to avoid a serious drop in production of indigenous oil and gas in the 1990's.


With this in mind, I have carried out a review of offshore licensing policy, and am now ready with proposals to implement our declared policy of restoring the momentum of exploration and encouraging the greater involvement of the private sector. From my discussions with the industry I believe that these proposals will be generally welcome.

The essential features are:

- (a) The rate of licensing should be roughly doubled so that about 100 blocks of UKCS territory are awarded every 18 months or so. (Each full block covers roughly 100 square miles). The remaining stock of blocks in the relatively shallow water depths (that is down to 1,000 feet or so) should sustain such a programme of awards for the next four or five years, until the industry is technically better prepared to undertake the thorough exploration of the deeper waters of our Continental Shelf where, hopefully, further reserves remain to be discovered.



- (b) Although the industry is not yet ready to undertake extensive exploration in deeper water, we should encourage it to make a start by offering a few deep water blocks to stimulate interest of the more forward looking companies and wider discussion of the special problems of deeper water operations.
- (c) The arrangements should include provision within rounds of licensing for companies to apply for blocks which have not been nominated in the normal way by my Department as available for application. In parts of our Shelf which are already explored, notably the North Sea, it should be to our advantage to allow companies to apply for blocks of their choice in addition to those nominated by my Department.
- (d) As a good proportion of the remaining undiscovered reserves are thought to lie in blocks already licensed one of the aims of the next round should be to encourage companies to explore their existing territory more thoroughly. Thus applicants' record and intentions in exploration of existing licences would be very important factors in the awards of future licences. So would their readiness to explore blocks of ours as well as their own choice.
- (e) BNOC (and BGC) should no longer have the preferred position of licences accorded by the previous Administration. This recommendation is entirely consistent with our policy objectives for BNOC.
- (f) As BNOC will no longer have a mandatory share in licences, we need to consider how we can offset at least some of the resulting reduction in the British share of licence territory. In particular,



we want to help the smaller British Companies. I believe that we can achieve this by informal discussion and the normal administration of licensing procedures under my powers. We would do this with care so as not to provoke allegations from overseas that I was using these powers in a discriminatory manner.

- (g) The arrangements should be drawn in such a way as to give the Government an option on half the oil found under new licences.

If you and our colleagues are generally content with these proposals I will announce them by Written Answer concurrently with my proposed Statement on BNOC next Thursday, 26 July. (A draft Question and Answer is attached). My Department will then be able to discuss the detailed conditions and arrangements for the next 7th licensing round with industry, the TUC and STUC, local authorities and environmental interests, as well as with Government Departments particularly those closely concerned in the choice of the blocks to be offered for licence, Scottish and Welsh Offices and the Defence and Fisheries Departments.

My Department will also prepare any necessary Regulations. These could be subject to negative resolution. My aim would be to announce the 7th round and invite applications around the end of the year with a view to issuing licences during the summer of 1980.

I am copying this minute to our colleagues in E Committee, to the Secretaries of State for Defence, Scotland and Wales, to the Attorney-General and to Sir John Hunt.

Secretary of State for Energy  
20 July 1979

J.H.  
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Q: TO ASK THE SECRETARY OF STATE FOR ENERGY WHAT PROPOSALS HE HAS FOR FURTHER OFFSHORE PETROLEUM LICENSING

A: The Government has already declared its objective that exploration of the oil and gas resources of the UK Continental Shelf should go forward with increased momentum. This is necessary if we are to be able to develop new fields in the years ahead when production from existing fields starts to tail off. To this end I intend to get a new round of offshore licensing under way as soon as possible.


It is important that our offshore licensing system gives encouragement and stability to the industry, which has to invest in exploration and development effort, and safeguards the nation's essential interests in our resources. My Department has been reviewing licensing policies in the light of experience and changing circumstances, and I propose that the seventh and ensuing licensing rounds should be on the following basis.

(a) The rate of licensing should be around 100 blocks every 18 months or so - about double the rate of the 5th and 6th Rounds.

(b) Some blocks in deeper water should be included in the rounds.

It is important that we should start to explore deeper water territory on our Shelf and gain experience of the problems involved.

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- (c) In parts of our Shelf which are already extensively explored, notably the North Sea, companies should be able to apply for blocks of their choice, in addition to their application for blocks nominated by my Department.
- (d) Since a good proportion of the remaining undiscovered reserves is thought to lie in territory already licensed, it is important that existing licence areas should be thoroughly explored. Applicants' record and intentions in the exploration of their existing licenced areas would be important factors in the award of future licences. So would their readiness to explore blocks of my Department's as well as their own choice. By removing the public corporations' first options on assignments of licence rights I have also given encouragement to exploration in existing licenced areas.
- (e) The public corporations will no longer have a preferred position or mandatory interest in future licences.
- (f) The arrangements should provide for the Government to have an option to purchase up to half the oil found under new licences.

I now propose to discuss my proposals for future licensing with management, unions and other organisations closely involved. In addition I will welcome the views of interested bodies outside the industry about which offshore areas might be licenced over the next few years and in particular their views on areas where they believe special care may be needed in the conduct of exploration and development for environmental or other reasons.

The Government believes that this new and more positive approach to licensing will result in a correspondingly positive response from the industry, larger and smaller companies alike, and will lead to greater exploration activity on our Continental Shelf.



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SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU 30/vii

Rt Hon David Howell  
Secretary of State for Energy  
Thames House South  
Millbank  
LONDON

27 July 1979

#### FUTURE OFFSHORE LICENSING

Thank you for copying to me your minute of 20 July to the Prime Minister outlining your proposal on offshore licensing in order to restore the momentum of exploration and to encourage the greater involvement of the private sector.

I, of course, fully support the need for ensuring that an adequate level of exploration of UKCS resources is maintained. This is essential if these resources are to be developed to the full. I am therefore in broad agreement with your proposals though I would suggest that officials might explore further whether more might not be done to encourage companies to explore their existing territory more thoroughly.

As regards the implications for Scotland there are two points I wish to stress. The first is that, energy and revenue aspects apart, these offshore resources are vital to us for the onshore employment which they bring. If that employment is to be sustained it is necessary that the offshore activity should be at just the right level, neither too little or too infrequent nor too much. A sudden rush of licensing could mean orders which the UK onshore industry - and of course this interest does indeed go beyond Scotland - was unable to handle, with the result that this work would go abroad and in the bygoing would strengthen foreign competition. It could be that an award of 100 blocks every 18 months could create this damaging situation and I am therefore encouraged by your promises viz "about 100 blocks" and "every 18 months or so". I assume that this means that you are prepared to adjust the rate in the light of offshore and onshore circumstances.

On this question on the scale of impact I take it that you are satisfied that the offshore industry could absorb both a Seventh Round of the dimensions proposed and a possible reassignment of BNO's Fifth and Sixth Round Licenses as discussed in B(DL)?

My other major interest is in the impact on the fishing industry. As you will know, the industry has already made strong complaints that oil activity has been damaging to its livelihood and indeed we know that the industry is totally opposed to any further licensing in areas which are of interest to oil companies. It is therefore essential that the interests of the fishing industry be taken into account and that industry representatives be consulted on those areas to be licensed. I suggest that adverse criticism could be lessened if these points were made more explicitly in your statement. Further, I think that the fishermen will express particular anxiety over the proposal that companies explore blocks of their own choice. Fishermen know, for example, of oil companies keen interest in the Moray Firth, an area which is also very important for fishing. Consultation after applications have been received is unlikely to assuage this concern, as experience of possible oil activity in Firth of Forth has demonstrated. I would hope, therefore, that our officials could get together in advance to determine the general areas where uninvited applications would be appropriate.

I am copying this letter to the Prime Minister and to the other recipients of your minute.

(Approved by the  
Secretary of State and  
signed in his absence)



30 JUL 1979





Energy  
V  
MS

SECRETARY OF STATE FOR ENERGY  
THAMES HOUSE SOUTH  
MILLBANK LONDON SW1P 4QJ 211 6402

Rt Hon George Younger MP  
Secretary of State for Scotland  
Scottish Office  
Whitehall  
London SW1A 2AU

3 August 1979

Dear Sir

FUTURE OFFSHORE LICENSING

Thank you for your letter of 27 July on this subject. I am glad to have your support on the need for ensuring an adequate level of exploration of our UKCS resources and to learn that you are in broad agreement with my proposals.

I suggest that, not only the questions of existing licensed territory being thoroughly explored and of fisheries, but also the size of the Round and the BNOIC implications mentioned in your letter, would be suitable subjects for study by officials in the first instance. My officials have already been in touch with yours and the intention is that there will be detailed discussions over the coming weeks with a view to resolving any differences between the two Departments. Parallel discussions will be proceeding with other interested Departments at the same time and I have in mind that, when officials have concluded their deliberations, I will put a further paper about Seventh Round licensing to our colleagues for consideration.

I am copying this to the Prime Minister and to other recipients of my minute to her of 20 July on future offshore licensing.

Yours

DAR

D A R Howell

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## OIL POLICY

3.56 p.m.

**The Secretary of State for Energy (Mr. David Howell):** With permission, Mr. Speaker, I will make a statement about the Government's oil policy and the British National Oil Corporation.

The Government have reviewed the full range of the BNOC's activities. They have also had much in mind the serious decline in offshore activity.

After discussions with the chairman and the BNOC board, the Government have concluded that BNOC can best serve the nation's interests in a continuing but 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.

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 per cent. of most of the oil produced on the United Kingdom continental shelf, and it is a substantial enterprise in the North Sea, engaged in exploration, development and production.

As far as the trading activity is concerned, the Government have 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 of oil, and thereby security of supply, also depends on economical pricing, and that is why we have removed the price controls which we inherited.

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 on this.

Furthermore, the Government have 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-à-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 have 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 intend 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 petroleum revenue tax 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 on the North Sea. I have also decided that the Corporation's statutory role as adviser of 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 their regulatory role, are fully able to protect vital national interests.

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

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 United Kingdom continental shelf. Our decision to examine with the industry the problems of the so-called marginal fields should also be of positive help.

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 the seventh round of licensing.

I believe that all this will make a major contribution to restoring a high level of

**Mr. St. John-Stevás:** I hope that, a reasonable time after we return from the recess, we shall have a debate on that subject.

**Several Hon. Members rose—**

**Mr. Speaker:** Order. There are two statements to follow business questions, but since this is the last day, I will call those hon. Members who have risen, if they will co-operate by asking brief questions.

**Mr. Ioan Evans:** Has the right hon. Gentleman seen the report of the serious allegation made by Eschel Rhodie—who was involved in the Muldergate scandal—that Members of Parliament are financed by the Pretoria Government? May we have a statement as soon as we resume on an investigation during the recess into these serious allegations?

**Mr. St. John-Stevás:** Of course I am always concerned with any matters that reflect on the good name of hon. Members, but I have learnt that one should not take as facts allegations that are unsupported by evidence.

**Mr. Bidwell:** Will the right hon. Gentleman avoid making his holiday arrangements too far in advance, since, because of the Government's extremist policies, there will be demands from the public and from hon. Members for the recall of Parliament long before 22 October?

**Mr. St. John-Stevás:** I am grateful to the hon. Member for that advice but, unlike him, I have so far made no arrangements for the holiday.

**Mr. Flannery:** From his undoubtedly profound inner knowledge, will the right hon. Gentleman enlighten us about the character of the package of goodies that his Government will unleash on an unsuspecting British public in the recess, while we are not looking?

**Mr. St. John-Stevás:** I do not know quite to what the hon. Member is referring, but if he has in mind certain reports of cuts in Government spending, I would

only say that if the British public are unsuspecting they must be deaf, dumb and blind.

**Mr. Dubs:** Will the right hon. Gentleman consider the difficulties that often face the House when we have long and complicated ministerial statements after Question Time, particularly when they deal with reports such as the recent one by the Royal Commission on the National Health Service? I know that some hon. Members can ask searching questions about reports that they have not read, but that is not a gift that all of us have. I wonder whether we could have a better arrangement, so that we have the reports some time before the ministerial announcements.

**Mr. St. John-Stevás:** I appreciate the point, which in an ideal world we could no doubt realise, but even more important is that, when important decisions on policy have been made by the Government, the House should be informed as soon as possible.

**Mr. Greville Janner:** As so many of the feared reductions in the facilities for the elderly, the sick and the disabled will take place during the next three months, may we at least have the assurance that there will be an early debate on these sad matters as soon as possible after the House returns?

**Mr. St. John-Stevás:** I hope that the hon. Member's fears will not be realised, so the need for a debate will not arise.

**Mr. Foulkes:** Following the previous question, by the time that we return from the so-called "Summer" Recess it will be very cold, at least in my part of the country. Therefore, what arrangements will be made for the Secretary of State for Energy to make a statement about the extension of the fuel discount scheme and for the Secretary of State for the Environment to make a statement about the insulation scheme before we return?

**Mr. St. John-Stevás:** I shall convey those views to my right hon. Friends concerned.

expertise within the BNOG have been unable to give to each operating committee the amount of time that would be correct and justifiable?

**Mr. Howell:** I strongly agree with my hon. Friend's analysis of the present position.

**Several Hon. Members rose—**

**Mr. Speaker:** Order. I propose to call two hon. Members before we move on to the next statement.

**Dr. M. S. Miller:** Will the Secretary of State satisfy me on one point? He seems to be stressing that the major surgery that he is about to embark upon—I remind him that sometimes patients die after they have had major surgery—will somehow encourage more exploration in the North Sea. Is he therefore saying that the best way of finding more oil in the North Sea is to keep drilling holes in the seabed instead of taking scientific geological surveys and examining the situation and then boring the holes in the reasonable way in which the BNOG has in the past?

**Mr. Howell:** The geology of the North Sea is very difficult. It is not always possible by geological surface assessments to locate pockets of oil under the cap of the continental shelf. The search for oil therefore requires extensive drilling over wide ranges of North Sea acreage. I think that my statement today will encourage that. It will also encourage further drilling on territory that is already licensed.

**Mr. Ioan Evans:** Under this Government the price of a gallon of petrol has risen from 80p to £1.20. Does that not mean that there will be tremendous profit in the exploitation of North Sea resources? Should we not therefore be increasing public participation, especially since four public industries have recently reported profits totalling £1 billion? Could not that money be invested in the North Sea to ensure that the British people get the maximum return? Does the right hon. Gentleman recall, in history, the South Sea Bubble? Is this not the North Sea Bubble?

**Mr. Howell:** I think that both sides of the House recognise that we have a sensible and fair tax system for North Sea oil production. I think that that is

recognised also by foreigners who come here. The profits that remain after taxation provide the impetus that goes into investment in North Sea energy resources, which will secure those resources for ourselves, our children and our children's children.

#### CIVIL SERVICE (DISPERSAL)

**The Minister of State, Civil Service Department (Mr. Paul Channon):** With permission, Mr. Speaker, I wish to make a statement.

On 11 June the Government announced that they were going to review the programme of Civil Service dispersal. The Hardman report of 1973 had produced three possible options. Our predecessors then produced a plan which was significantly from any of them.

When we came into office we found that it was proposed not only to disperse a further 21,000 Civil Service posts from London but 4,000 from such places as Harrogate, Bath and Didcot. Such dispersal moves from places outside London were never suggested in the Hardman report and it is impossible to see the justification for them. The present programme would cost over £250 million during the remainder of the present public expenditure survey period to 1983-84, and we should be well into the 1990s before the benefits from dispersal began to offset the costs.

Whilst I recognise that in the assisted areas the dispersal programme has been viewed as an important element in improving employment opportunities, nevertheless some of the important considerations which led to the setting up of the Hardman study no longer apply. In 1973 the Civil Service was expanding and the Government faced the prospect of providing more offices at high London rents. The Government intend to reduce the size of the Service. Moreover, the gap between office rents in London and in the provinces has substantially narrowed and the long-term financial benefits of moving people out of London are that much the less.

Having considered all these factors, the Government have reached the following conclusions. Three moves already in progress should continue. These are the moves of the Manpower Services Commission to Sheffield, the Export Credits

[Mr. Channon.]

Guarantee Department to Cardiff and the Council for Small Industries in Rural Areas to Salisbury involving a further 2,600 posts. There are two further small moves which would increase the efficiency of the departments concerned at very little cost. These are the laboratory of Her Majesty's Stationery Office to Norwich and a small group of about 90 Customs and Excise staff to Southend.

The Government have also decided that some dispersal of Civil Service posts is justified to meet the particularly pressing needs of Glasgow and Merseyside. A total of at least 2,000 posts will therefore be moved to Glasgow and East Kilbride by the Ministry of Defence and the Overseas Development Administration. The Glasgow posts will be located at the St. Enoch's site. There will also be a dispersal to Bootle where there is a large building available. The full composition of this has not yet been settled but the first tranche of 250 posts will be the Home Office Computer Centre and a unit from the Property Services Agency. All the posts in the revised programme will be taken from the London area.

Much of the dispersal programme which we inherited from our predecessors has been so altered from the original aims of the Hardman report that it would have made no sense in terms of regional policy to proceed with those moves. In the light of all the altered circumstances, we have decided to proceed only with the moves which I have just announced. This will mean a saving in planned public expenditure of well over £200 million up to 1983-84.

**Mr. Wrigglesworth:** Will the hon. Gentleman confirm that his announcement means that the 20,000 promised jobs are not to be dispersed to the regions? Is he aware that that will cause deep bitterness and resentment in the areas that will be deprived of employment prospects that the previous Government offered to them and on which they have spent considerable time, effort and resources planning for?

Does the hon. Gentleman agree that the £200 million short-term gain that he has announced will be obtained at the sacrifice of a long-term saving of about £800 million of public expenditure, a sum that accelerates the longer dispersal takes place? Does he agree that this is another

hammer blow to the region on top of those already administered by the Government to regional policy, shipbuilding and various other areas? Is he aware that there will be sites in the areas that were to receive dispersal jobs that will be vacant for many years to come?

How much expenditure has been incurred by the Government and by local authorities in the areas where moves have now been cancelled? Will the Government pay any compensation for the large sums that have been expended by some local authorities? Is it not true that no serious consideration has been given to the real economic and social needs of the regions? Does he agree that, as with other areas of real need, they are being sacrificed on the high altar of Tory doctrine?

**Mr. Cannon:** With respect to the hon. Gentleman, that is exactly not so. I do not agree with what the hon. Gentleman said about a long-term gain of £800 million. That is much exaggerated. A great many of the purported gains would have come many years ahead. Circumstances have changed. The programme that I have announced will save £200 million or more in the next few years. We have done our utmost to proceed with elements of dispersal to Scotland and to Merseyside, which I hope will be of some benefit to those areas. In the present public expenditure situation, I think that I have done the best that I can to satisfy both sides of the House.

**Several Hon. Members rose—**

**Mr. Speaker:** Order. The House has seen that many right hon. and hon. Members are rising in their places to seek to catch my eye. I shall do by best, as I realise the importance of the statement. I hope that right hon. and hon. Members will co-operate by asking brief questions.

**Mr. Maxwell-Hyslop:** Will my hon. Friend accept our thanks for introducing a rational policy where previously there had been pre political gerrymandering, announced in some instances in written answers the day before the general election? His statement will be greatly appreciated in Devon.

**Mr. Channon:** I am extremely grateful to my hon. Friend. I never understood the logic that led some to say

exploration activity on the United Kingdom continental shelf after the recent very serious slow-down.

**Dr. Owen:** For a party that bedecks itself in the Union Jack at every opportunity, this is a miserable statement. Is the right hon. Gentleman aware that oil policy involves more than the public sector borrowing requirement? It is a vital national strategic resource—something that was recognised in this House half a century ago by a previous Conservative Leader, Sir Winston Churchill, speaking on behalf of the Liberal Party in defending the Government's role in British Petroleum.

Is the right hon. Gentleman aware that, far from reassuring the industry and creating more stability, his statement about the disposal of assets and the introduction of private capital raises more questions than it answers? How many assets does he intend to dispose of, of what value, and to whom? Will he assure the House that no foreign person or company will be able to acquire a major holding in the British national resource of the North Sea?

Will the right hon. Gentleman assure us that in raising any public capital he will not make any decision before these issues can be discussed in the House, and that he will not dispose of BP shares before these issues can be discussed?

It is not good enough, on the last day before the recess, to make a general statement in the House about the intention to dispose of or to weaken national control over a major national resource.

Is the Secretary of State aware that offering to strengthen the bureaucracy in his Department at the expense of BNO's oil men is hardly guaranteed to improve our control over North Sea oil? Does he agree that one of the vital attributes of BNO is its knowledge and expertise about exploration and development, and that that advice and knowledge should be made available to the Government? We shall oppose any legislation or action based upon his statement.

**Mr. Howell:** I am sorry that the right hon. Gentleman does not see fit to welcome the new impetus to restore our exploration in the North Sea, which is in the interests of the nation and of everybody who lives in it.

The right hon. Gentleman referred to the setting up of BP by the late Sir Winston Churchill. That was a classic example of the type of mixed finance which today's Labour Party is so obsessively against.

Far from continuing uncertainty, my statement will end an uncertain period that stretched back over several years. It will greatly improve the position of the oil companies and the BNO so that they can get on with their jobs without getting into each other's hair.

I cannot make a statement on the capital structure today. These are matters that are to be decided. I shall do my best to keep the House fully informed.

The right hon. Gentleman asked me about British ownership in the North Sea. The proposals will encourage more British investment in the North Sea. One of the worries about past policies was that not enough British capital was attracted into North Sea projects. The right hon. Gentleman mentioned the stronger Government regulatory role. It is the proper business of government to pursue and formulate effective policies for the North Sea. That is more desirable than relying on a large, over-extended State corporation which, in a more limited role, can play a useful part. The BNO has been allowed to become overloaded. It has become a drag on North Sea development.

**Mr. Patrick McNair-Wilson:** Is my right hon. Friend aware that the statement will be widely welcomed? Can he assure the House that after his discussions with the chairman of the Corporation he is satisfied that the future level of North Sea exports will be more in line with the national interest than it was under the previous Administration?

**Mr. Howell:** The BNO, together with other oil companies, has made changes in its export dispositions. That arose primarily from this Government's decision to get away from the labyrinth of price controls, which denied the British people a fair and reasonable share of limited world oil supplies. I believe that we shall now see a healthier development. I have discussed these matters with the chairman of the BNO.

**Mr. Grimond:** Does the Secretary of State agree that uncertainty will not be



[Mr. Grimond.]

removed until the legislation based upon his statement is introduced? Will he undertake to do that as soon as possible?

Will BNOC still be entitled to buy 51 per cent. of all oil produced from the North Sea if it wishes? Why should that encourage further exploration?

**Mr. Howell:** I am advised by many people in the oil industry and in the BNOC that my proposals will remove uncertainty and enable the BNOC and other oil explorers, developers and producers to get on with the tasks which have been held up. This is reflected in the appalling drop in the number of exploration wells. In the first six months of this year only 13 exploration wells were drilled, compared with 37 in the whole of last year and 67 in the previous year. Those figures are inadequate. I think that the uncertainty will be ended.

The participation arrangements will continue, giving the BNOC the right to buy, at market prices, 51 per cent. of North Sea oil production. That will be at market prices and therefore the oil companies must continue to accept that the BNOC is a major company. The prices determines the incentive to explore, develop and produce.

**Dr. J. Dickson Mabon:** Is the Secretary of State aware that his statement will be met with criticism by constituents of hon. Members on both sides of the House? Does he agree that it would be wrong to open up the BNOC to foreign penetration and that it should be reserved for British citizens? Will he consider that matter seriously?

**Mr. Howell:** Of course I shall seriously consider what is in the best interests of the people and the nation. I believe that as a consequence of what I have said today there will be more British investment and involvement in the North Sea.

**Mr. Hannam:** Does my right hon. Friend accept that his sensible statement will do much to lift the blight imposed by the previous Government upon North Sea exploration? Will he confirm that far from protecting British interests in the North Sea, the BNOC was exporting two-thirds of its oil during the recent crisis?

**Mr. Howell:** I am grateful to my hon. Friend. I believe that my proposals will help to lift the blight. I confirm what my hon. Friend says. The fallacy in the minds of some Labour Members is to equate State ownership with national interest, influence and control. They are not the same. The British people have had every reason to learn that from events in the early part of this year and in the past five years.

**Dr. Owen:** The Secretary of State has made a serious implied allegation. He implies that the BNOC has not acted in the State's interest. Whatever the right hon. Gentleman's doctrinal view of the BNOC, he owes it, to that Corporation and the people who work for it to make it profitable at least to say that they have worked in the national interests.

**Mr. Howell:** I made no such allegation. I said that narrow State ownership is not necessarily—and, indeed, not often—in the interests of the British people. That applies to State industries of many types, including the BNOC. That is no allegation against the work of the BNOC or of its chairman, with whom I have had many constructive discussions. I fully recognise his energy and value. The right hon. Gentleman has got the matter completely wrong.

**Mr. Gordon Wilson:** Since the Secretary of State has mentioned the benefits of his proposals to Britain, will he please spell out the benefits to Scotland?

The head office of the BNOC is in Glasgow. Does the Secretary of State propose to take staff away from Glasgow and to build up the petroleum division in his own Ministry in London? Does he agree that that is a damnable proposition, since the oil belongs to Scotland? Will he therefore transfer the petroleum division of the Department of Energy to Scotland from London?

**Mr. Howell:** The hon. Member is becoming unnecessarily excited. There will be considerable benefit to his fellow countrymen through exploration, investment, expenditure, equipment and more activity in the North Sea. That will help the hon. Gentleman's country. I am surprised that he has not seen fit to welcome my statement.

I do not think that there will be any substantial or even minor cuts in the staff

of the BNOG. The Corporation has large and over-extended commitments. Over one-quarter—or 145—of the licences issued for North Sea exploration are held by the BNOG, out of a total of 457. It is not a question of cutting staff so much as cutting commitments so that the staff can get on with the job as I know they wish to do.

**Mr. Emery:** Does my right hon. Friend agree that the rundown of expansion in the North Sea under the previous Government is best illustrated by the fact that when the Labour Government came to office there were 28 exploratory rigs in the North Sea, but when the Labour Government lost the election only seven or eight such rigs were operating?

Does my right hon. Friend agree that the confidence that will encourage international oil companies to return and explore in the North Sea will be restored, because they will no longer have the impression that the whole of the North Sea is in the BNOG's pocket?

**Mr. Howell:** I agree with my hon. Friend. Confidence will be restored, but we cannot undo in 10 weeks the jumble of five years.

**Mr. Dalyell:** Will the Secretary of State be more specific about the marginal fields? He promised talks. If the BNOG is to be dismantled, how can we have any confidence that fields will be dealt with in a rational sequence?

**Mr. Howell:** I do not think that the two matters are directly related. The BNOG had a preferred and irrational sequence in the fifth and sixth licensing rounds. In future rounds, as it will not have a preferred position, there will be a more open and rational sequence, which will allow small and large operators a fair share and a full input of enterprise in the North Sea. I hope that this will benefit the hon. Gentleman's constituents.

**Mr. Skeet:** Will the Secretary of State consider merging the rather diminished assets of the BNOG with the British Gas Corporation and offer a part of the combined Corporation to the public? Will my right hon. Friend confirm that his proposals mean the abolition of the national oil account and the payment of the royalties and rentals to the Treasury?

**Mr. Howell:** The first proposition of my hon. Friend is an interesting one, but

my answer to it must be "No". No final decision has been taken on the future of the national oil account, but the BNOG will cease to have access to it.

**Mr. William Hamilton:** Is the Secretary of State aware that many people in the United Kingdom will regard this as an exercise simply in transferring to private shareholders and private speculators additional loot from the public purse? The right hon. Gentleman said that the BNOG will no longer be entitled to sit on the committees. How will the Government secure access to the technological and geological expertise which is in the hands of the private multinational companies? Further, who will be the new chairman when the right hon. Gentleman gets rid of Lord Kearton? Will the right hon. Gentleman give us concrete proof, in the form of a White Paper or otherwise, to show how this new set-up will increase the amount of exploration in the North Sea?

**Mr. Howell:** I am satisfied that the strengthening of my Department's technical resources, combined with all the advice that I receive from many quarters, including the BNOG, is fully adequate to formulate effective national policies in the national interest in respect of the production, exploration and development of oil in the North Sea. There is no question of getting rid of Lord Kearton. He has indicated to this Government, as he did to the previous one, that he wishes to go some time this year. His appointment runs out at the end of this year. I shall make an announcement about a new chairman in due course.

**Mr. Forman:** Many of us on the Conservative Benches think that my right hon. Friend has the balance about right in his statement. Is he aware that there are very strong grounds for saying that the policies that he announced in his statement will manage to secure access to oil, control over depletion policy, and adequate monitoring facilities within the Department?

**Mr. Howell:** I am grateful to my hon. Friend for his comments. I am convinced that these objectives can and will be achieved by the policy that I have outlined today.

**Mr. Hooley:** The Secretary of State's statement will be widely welcomed by

[Mr. Hooley.]

those financial and commercial interests who contributed most heavily to the Tory Party and who are now being repaid for their political bribes. Is it not extraordinary that in an industry that is dominated by multinational companies, which are difficult, if not impossible, for national Governments to control, he should set out to destroy an important instrument of national control, allegedly for the benefit of United Kingdom taxpayers as a whole.

**Mr. Howell:** I think that the hon. Member for Sheffield, Heeley (Mr. Hooley) has got it upside down. The statement will be widely welcomed by the British people as an important strengthening of our energy resources and of the investment potential in the North Sea to meet the energy strategy and needs of this nation over the next 20 to 25 years.

**Mr. Hill:** Is my right hon. Friend not concerned that the House is becoming quite myopic over North Sea oil, as though that were the only source of oil in the United Kingdom? Is he aware that we in the South are anxious that a further release of licences should be made as soon as possible, and that every assistance should be given to private enterprise in the English Channel so that it can make progress? Is my right hon. Friend aware that southern Members will be pleased to share their oil with Scottish Members?

**Mr. Howell:** I take note of my hon. Friend's comments. Of course, providence and geology have placed certain limitations on his aspirations, but at least one of the licences that I am announcing in the sixth round batch today is in the South-Western Approaches, and others are in the southern basin. This is therefore not entirely a northern affair.

**Mr. Arthur Lewis:** In view of the Tory Party's declared policy before, during, and since the election, that it is in favour of improving industrial relations, to what extent has the right hon. Gentleman had discussions with the trade unions about these matters? Will he give an assurance that if those discussions are taking place they will continue through the following processes that are in train.

**Mr. Howell:** I have discussed this matter with the chairman and the board of the BNOC, but I thought it right that the House of Commons should be the first to hear our proposals and plans. Of course, it is now my intention to discuss them most closely with the staff, and I shall do so.

**Mr. Sproat:** Is my right hon. Friend aware that this major surgery on the powers and rights of the BNOC—powers and right that always owed more to political dogma than to commercial common sense—will be universally welcomed by those who work in and with the oil industry? What did the chairman of BNOC say about the proposals that my right hon. Friend has put forward today?

**Mr. Howell:** My conversations with the chairman are confidential. However, I believe that my announcement will be welcomed by all those who are in enterprise and activity of a very advanced and, sometimes, very strained and difficult kind in difficult conditions in the North Sea, as well as by many of those working in the BNOC.

**Mr. Stoddart:** Is the right hon. Gentleman aware that his statement is nothing short of scandalous? It is scandalous that he should be flogging off great national assets and undermining the British interest by selling those assets off to foreign oil companies. By what mechanism does he intend to ensure that unprofitable fields are developed by private operators in the absence of control in respect of the BNOC?

**Mr. Howell:** The hon. Member for Swindon (Mr. Stoddart) is confusing narrow State ownership with the British national interest. They are two very different things. I do not think that in its previous form the BNOC was concerned, or even wished, to rush into unprofitable fields. The first priority is to establish where there are commercially recoverable reserves, and then we must recover them. More of that will happen as a result of my statement today.

**Mr. Eggar:** Is my hon. Friend aware of the dangerously large number of licences held by the BNOC, which has undoubtedly held up the development of North Sea fields, particularly because the limited number of extremely dedicated employees who have the necessary

Prime Minister

Energy

You said you would like  
to consider Mr Howell's  
proposals for the 7<sup>th</sup> Licences  
round at today's meeting. (He  
wants to announce them this week).

12.

? 23/7/79

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Qa 04207

To: MR LANKESTER  
From: SIR KENNETH BERRILL

Offshore Licensing

Prime Minister

Ken Berrill's doubts  
seen well-founded.

Shall I write as  
per the draft at Play B?

(You may wish to  
refer to min in E)

No - can be  
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minutes

we  
are  
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23/7

Play A

1. In his minute of 20 July to the Prime Minister, the Secretary of State for Energy seeks agreement to his making a detailed announcement on offshore licensing policy on 26 July concurrently with his proposed announcement on the future of BNOG. I believe very strongly that it will be premature for the Secretary of State to make a detailed announcement at this juncture before a number of important issues are clarified between Ministers. In my view there is everything to be said for putting off the announcement until the Autumn and that very little would be lost by doing so.

2. Licensing policy is, of course, intimately bound up with depletion policy. Depletion of oil and gas assets is an issue which all major producers consider both seriously and in detail. There have been three interdepartmental studies on depletion policy under the previous Administration, all of which came to the conclusion that, although there were great uncertainties, the best policy was one of caution and one of flexibility.

3. The Secretary of State wishes to go back on both these conclusions and to announce that the 7th licensing round will be twice as large as the previous two rounds and that similar rounds will follow at intervals of about 18 months. The abandonment of flexibility is almost as important as the change in scale. All our EEC partners will want us to have large rounds which follow each other rapidly and it will be difficult for us to go back to a flexible approach once we have adopted the new course. This change of direction on both size and flexibility could be right or could be wrong, but as far as I know has been undertaken without detailed analysis. I believe that the Secretary of State commissioned a fourth reconsideration of depletion policy but that study is not yet complete.

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4. The Secretary of State's proposed announcement raises a number of subsidiary issues -

(a) in the proposed 7th round, how can we ensure that British participation will be adequate to fill the gap left by BNOC? The balance of payments advantages of the exploitation of the North Sea by British companies rather than foreign companies are considerable. At the moment UK companies (including BNOC) hold some 43 per cent of the licensed area and we would want it to be at least as high in future.

(b) By what arrangements would the UK Government have the option to purchase up to half the oil found under the new round? How would the responsibility be split between the Government and BNOC?

(c) How will the announcement of the 7th round encourage further exploration under the previous six rounds? The 7th round would presumably be allocated before existing licensees had had much time to speed up their activity.

5. If the announcement on the 7th round were put off until after the Recess, it would not, in practice, make much difference to activity in the North Sea. 7th round licences would only be awarded in the summer of 1980 and drilling in the new areas could only be planned for 1981. If the Secretary of State makes his announcement in October and companies wish to speed up exploration in 1980 so as to set a good tone for their 7th round applications, they will still have time to replan their 1980 programme.

6. I expect a number of Ministers would subscribe to some of the points made above and would wish for collective discussion before announcements are made, in particular the Chancellor of the Exchequer, the Foreign Secretary, and the Secretary of State for Scotland.

7. If the Prime Minister agrees that an announcement this Thursday would be premature, she might like a minute to be sent to Mr Howell's Private Secretary along the lines of the attached.

8. I am sending a copy of this minute and the attachment to Sir John Hunt.

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DRAFT LETTER FROM MR T LANKESTER TO DR W BURROUGHS

Future Offshore Licensing

The Prime Minister is grateful for your Secretary of State's minute of 20 July on the future of offshore licensing seeking her agreement and that of other colleagues to his making a statement on 26 July about the 7th licensing round concurrently with his statement on BNOG.

The Prime Minister appreciates the case for giving a boost to exploration of the UK Continental Shelf, including deep water exploration, but the proposed announcement does constitute a major shift from previous depletion strategy both by having larger rounds and by committing the Government to rounds every 18 months. Once having got locked into such a commitment it will be difficult, vis-a-vis our EEC and OECD partners, to go back on it. She suggests that depletion strategy ought to be discussed interdepartmentally and between Ministers before an announcement is made in the Autumn.

Apart from this the Prime Minister would like your Secretary of State to describe the steps that might be taken to ensure significant participation by British companies if there are fairly



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frequent licensing rounds of 100 blocks: in particular, how does your Secretary of State see the role of smaller British companies to which he refers?

I am sending copies of this letter to the Private Secretaries to the members of E Committee, to the Secretaries of State for Defence, for Scotland and for Wales, to the Attorney General, Sir John Hunt and Sir Kenneth Berrill.

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