

8 February 1985

PRIME MINISTER

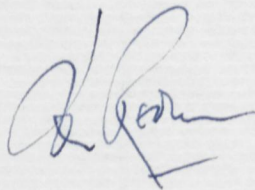
There is no sense in taking special steps to defer producing our oil on the grounds that it will be worth more in the 1990s. The market will take care of this. If the price now slides, then people will defer their production plans without Government intervention. If the price stays up, it is probably worth more produced now. Why forego tax revenue and a good return for the oil companies?

Playing at Sheiks is a dangerous game.

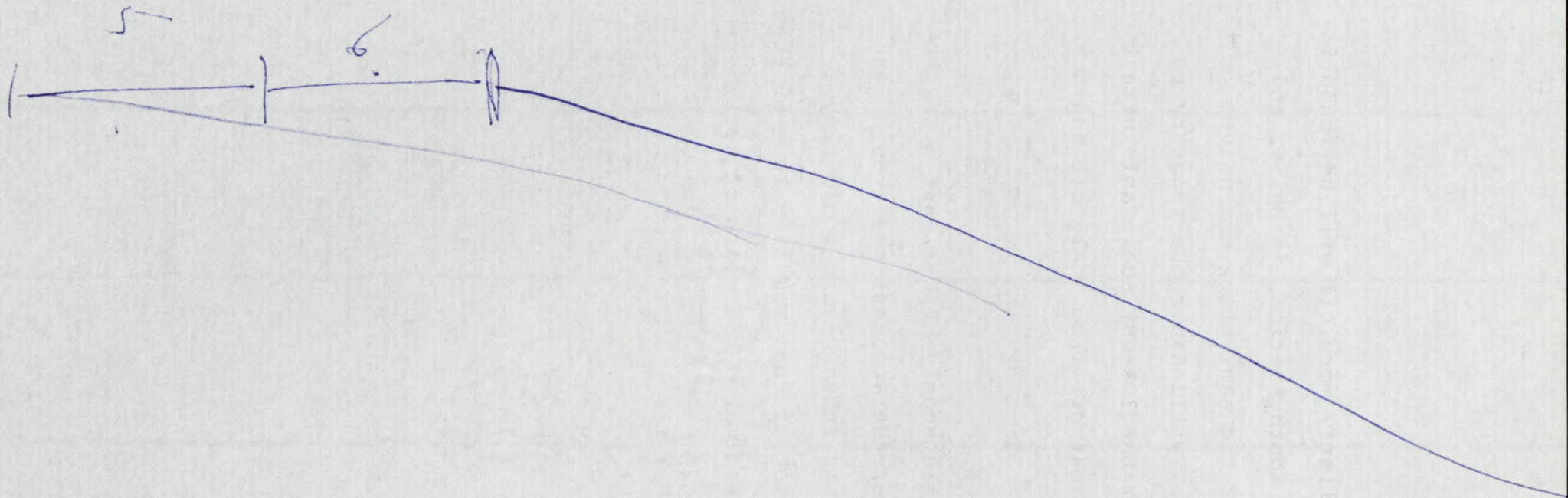
We cannot rig the market because:

1. There is no shortage in world reserves. At the end of 1982, BP reckon there were 34 years of reserves at then production levels - a 20 year peak.
2. Future oil prices depend in large measure on what happens in the Middle East. New pipelines are being built and Iran, Iraq and Saudi Arabia are producing around 10m b/d less than at their peak.
3. Whilst further war in the Middle East could cut output more, there could just as easily be an increase in output and sales. The Middle East has 60% of world reserves.

4. As the price rises, it is likely more oil will be found in Central Africa, in Western South America, in China, and offshore in the Arctic. At the same time, expensive enhanced recovery techniques will enable the industry to push up oil recoveries from the 30%-40% achievable with current technology. High-cost oil from shale oil and tar sands will be developed.
5. What matters is not the world supply of oil, but of hydrocarbon. If oil gets scarce, the abundant reserves of gas which have been discovered in recent years would play a bigger rôle; and liquefaction of coal may take some of the strain. The world has an estimated 250 years of coal reserves.



JOHN REDWOOD



E.B.

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MR TURNBULL

8 February 1985

RUNNING DOWN BNOC'S AVAILS

1. BNOC's total oil availability is nearly 1.5 million b/d. It breaks down as follows:

| <u>Category</u> | <u>Proportion</u> | |
|---|-------------------|--|
| Royalty in kind | 19% | BNOC not at financial risk. |
| Participation, but sold back at same price to companies like BP, Shell, Esso, Mobil | 47% | BNOC not currently at risk. Future options need to be watched. |
| Participation oil on sold by BNOC | 27% | BNOC at financial risk in weak markets. |
| Third-party contracts | 7% | " " " |

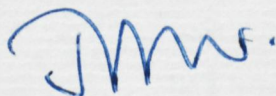
2. BNOC is exposed to financial risks on one-third of its availability ie 500,000 b/d. If BNOC relies solely on

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contractual options this can be run down as follows:

| | |
|--------|-------------|
| Now | 500,000 b/d |
| 1/7/85 | 480,000 b/d |
| 1/1/86 | 210,000 b/d |
| 1/7/86 | 125,000 b/d |
| 1/1/90 | 40,000 b/d |

3. The converse of BNOC's financial exposure is commercial advantage to the oil companies. In current circumstances, the Government will need to persuade them voluntarily to waive options and third-party contracts already exercised. The principal targets are Britoil, Occidental, Enterprise Oil, Union Texas, Deminex, Amerada, Texas Eastern, Chevron, Marathon, Phillips, Conoco, Gulf and LASMO.



JOHN WYBREW

World Reserves of Oil and Gas — “Published Proved” — at End 1982

| Country/Area | OIL | | | NATURAL GAS | | |
|---|-------------------------|-----------------------|--------------------------|----------------------|-----------------------|------------------------|
| | Thousand Million Tonnes | Share of total volume | Thousand Million Barrels | Trillion* Cubic Feet | Share of total volume | Trillion* Cubic Metres |
| U.S.A. | 4.7 | 5.5% | 36.9 | 204.0 | 6.8% | 5.8 |
| Canada | 0.9 | 1.0% | 7.0 | 97.0 | 3.1% | 2.7 |
| Total North America | 5.6 | 6.5% | 43.9 | 301.0 | 9.9% | 8.5 |
| Latin America | 11.0 | 11.6% | 78.5 | 186.6 | 6.2% | 5.3 |
| Total Western Hemisphere | 16.6 | 18.1% | 122.4 | 487.6 | 16.1% | 13.8 |
| Western Europe | 3.2 | 3.5% | 23.5 | 158.8 | 5.2% | 4.5 |
| Middle East | 50.2 | 54.4% | 369.0 | 769.2 | 25.3% | 21.8 |
| Africa | 7.7 | 8.5% | 57.8 | 189.4 | 6.3% | 5.4 |
| U.S.S.R. | 8.6 | 9.3% | 63.0 | 1 240.0 | 40.9% | 35.1 |
| Eastern Europe | 0.3 | 0.4% | 2.4 | 12.5 | 0.5% | 0.4 |
| China | 2.7 | 2.9% | 19.5 | 29.8 | 0.9% | 0.8 |
| Other Eastern Hemisphere | 2.7 | 2.9% | 19.8 | 146.2 | 4.8% | 4.1 |
| Total Eastern Hemisphere | 75.4 | 81.9% | 555.0 | 2 545.9 | 83.9% | 72.1 |
| World (excl. U.S.S.R., E. Europe & China) | 80.4 | 87.4% | 592.5 | 1 751.2 | 57.7% | 49.6 |
| World | 92.0 | 100.0% | 677.4 | 3 033.5 | 100.0% | 85.9 |

*Trillion: 10¹²; one million million.

Source of data

Estimates published by the "Oil and Gas Journal" (Worldwide Oil Issue - 27th December, 1982), plus an estimate of natural gas liquids for the U.S.A.

Notes

1. Proved crude oil and natural gas reserves are generally taken to be the volume of oil and gas remaining in the ground which geological and engineering information indicate with reasonable certainty to be recoverable in the future from known reservoirs under existing economic and operating conditions. The data exclude shale oil and tar sands.
2. The recovery factor, i.e. the relationship between proved reserves and total oil or total gas in place varies according to local conditions and can vary in time with economic and technological changes.

Coal Reserves in the diagram on page 29 are copyright of and supplied by courtesy of the World Energy Conference (Survey of World Energy Resources 1980).

