CABINET

NORTH SEA OIL POLICY: DRAFT STATEMENT

Memorandum by the Secretary of State for Energy

1. I attach for the agreement of my colleagues the statement I propose to make in Parliament at an early date about North Sea Policy. It has already been discussed in Energy Committee, and incorporates the Committee's comments.

2. We should consider the timing of the statement. It is essential to make it before the start of the Recess. But I should advise against a statement this week unless there are overwhelming political reasons for one. This is because:

   a. We want to minimise the chances of a debate before the Recess. The attitude of the other Parties is uncertain. If we were defeated, it would make renegotiation more difficult. Even if we were not we should be under some pressure to define our attitude to renegotiation in more detail than would be tactically wise. Although I can see political advantages in having a debate and even being defeated.

   b. The presentation of these proposals to the companies and foreign Governments is very important. It can make all the difference to success or failure in the renegotiation, and we must prepare it properly. We should for example tell the United States Administration, whose attitude will be crucial, a reasonable time before the statement is made.

   c. I should not be able to consult BP, as I have undertaken to do: to inform them the day before the announcement would not discharge this obligation.

3. I should therefore prefer to postpone a statement until after this week. Its exact timing after that should depend upon Parliamentary and political considerations at the time.

EGV

Department of Energy

1 July 1974
The Labour Party election manifesto expressed "Labour determination to ensure not only that the North Sea and Celtic Sea oil and gas resources are in full public ownership, but that the operation of getting and distributing them is under full Government control with majority public participation". We also made it clear in the Gracious Speech that it was our intention to ensure that as a result of the exploitation of these resources maximum benefit is conferred on the community, and particularly on Scotland and the regions elsewhere - such as Wales, which is well-placed to benefit from any Celtic Sea discoveries - in need of development. The statement I am about to make deals with the steps we are to take to implement the first of these undertakings. My Rt Hon Friend the Secretary of State for Scotland will shortly be announcing special measures designed to benefit Scotland.

Britain's oil is of course already publicly owned. That was carried out by the last Conservative Government but one under the Continental Shelf Act (1964). It was therefore our task to work out a new structure and taxation arrangements which would combine our manifesto commitment with an assurance to the oil companies about the substantial role that would remain to them.

Accordingly, immediately on taking office the Government began a fundamental review of our Continental Shelf policy. This review is now largely complete and I thought it right to let the House know straight away of our main conclusions. We have of course had very much in mind the excellent report by the Public Accounts Committee under the Chairmanship of my Rt Hon Friend the Paymaster-General, and the many representations which we have received from all interested parties since we came into office.

The House will know of the new forecasts of oil production published by the Government in May. We now expect our oil production to reach 100-140m tons in 1980 and 100-150m tons, or even more, throughout the 1980s. During the past year, the world price of oil has more than quadrupled: the f.o.b. price of Middle Eastern oil, a year ago about £2 a barrel, is now £9-10. If prices remain high and with the high production now expected, profits on our offshore oil will be enormous. By 1980 we expect annual pre-tax profits, assuming the current price of oil continues, and on a realistic estimate of output, to total over £3,000 million. It might be substantially more. Under present arrangements, tax and royalty would take a relatively small proportion of profits in the early years, and would never take much more than half. The result is that North Sea licensees would reap enormous and uncovenanted profits on their investment. A half or more of the post-tax profits are likely to be remitted overseas; by 1980 the cost of such remittances to our balance of payments could under present arrangements approach, or indeed exceed, £1,000 million annually.

This shows that an intolerable situation would arise. Prominent leaders in the oil industry themselves accept that a more equitable arrangement is essential. It also shows how much is at stake in developing this major natural resource for the benefit of the nation. This is what the Government intend to do. We have two objectives:

- to secure a fairer share of profits for the nation and to maximise the gain to the balance of payments. This must mean
a big increase in Government revenue from our Continental Shelf. On the other hand, the oil companies must have a suitable return on their capital investment; we recognise that the costs of exploration and development have been very heavy.

- to assert greater public control - essential if we are to safeguard the national interest in an important resource, a resource which belongs to the nation.

To achieve these objectives, the Government intend to take action under five heads.

First, we shall propose legislation in an early Finance Bill to impose an additional tax on the companies' profits from the Continental Shelf and to close various loopholes in the rules governing existing taxation on their profits. My Rt Hon Friend the Paymaster-General will make a statement on the Corporation Tax aspects immediately following my statement.

Secondly, we shall make it a condition of future licences that the licensees shall, if the Government so requires, grant majority participation to the State in all fields discovered under those licences. This will broadly follow the "carried interest" pattern successfully developed in Norway.

Thirdly, it is our belief that majority State participation in the existing licences for commercial fields provides the best means for the nation to share fully in the benefits of North Sea oil without unfairness to the licensees since the State contributes its share of the costs. Certainly this is the solution adopted with the consent of the oil companies in almost every other major oil and gas producing country in the world, not only those in the Middle East. Indeed, as the participation of the National Coal Board and British Gas shows, public sector participation has worked successfully in the British Shelf, without injury to oil company interests. I hope that the companies will recognise the strength of our views on this. We want the oil companies to continue to invest in the North Sea on profitable terms. We shall be very ready to listen to what they say and consider with them how our common interests can best be served. I am sure the industry will want to put to us their views at the earliest possible moment and to enter into talks with us on this basis and I shall be inviting them to do so shortly.

Fourthly, we shall set up a British National Oil Corporation through which the Government will exercise its participation rights. This Corporation will represent the Government in the present consortia and also build up a powerful supervisory staff expertise that will enable it to play an active part in the future development, exploration and exploitation of the Continental Shelf. It will also have powers extending to the refining and distribution of oil. The main office of the BNOC will be in Scotland.

Fifthly, we shall extend our powers to control physical production and pipelines. Experience has shown that there are many weaknesses in our present system. We shall, therefore, for current as well as future licences take power to control the level of production in the national interest. This does not effect our determination to build up production as quickly as possible over the next few years. The question of reducing the rate of depletion is unlikely to arise during this decade but we believe that we should take the necessary powers now. We shall
also take powers to receive royalty in kind, and to remit royalty in
certain circumstances; to control the development of undersea pipe-
lines, in the same way as we do on land; introduce tighter powers
over exploration and development; and require licensees to provide
more information about their activities than is now obligatory. All
these new proposed powers, together with existing powers, will enable
us also to ensure that proper precautions are taken to protect the
environment.

We shall be discussing the detailed implementation of these and other
changes with the companies.

We intend to bring legislation on these matters, and on the establish-
ment of a British National Oil Corporation, before Parliament as soon
as possible.

There are other matters which we are still considering, for example
how the new arrangements will apply to gas, but the House will wish to
know the decisions we have reached so far.

These are comprehensive and far-reaching proposals. They show the
Government's determination to act, and act quickly, to ensure that we
get full national benefit from our newly-discovered wealth. The oil
companies are fully aware that the present system could not continue
and will welcome the end of uncertainty which has hung over this
operation for two years now. I am confident that they will be ready
to join with us in working out a new structure which they know will be
durable because it will be accepted by the people of Britain.

DEPARTMENT OF ENERGY
1 July 1974