

EXCLUSIVE**ENERGY**

The North Sea: Britain's Fight For High-Energy Growth

British Energy Secretary Anthony Benn last month completed a takeover of 51 percent of Britain's North Sea oil by the government's British National Oil Corporation (BNOC). Not only does BNOC intend to see that North Sea oil is produced rapidly in large quantities to provide high energy throughput for Britain's industrial growth, but BNOC plans to market the oil itself, taking over 30-50 percent of the United Kingdom's market in the next three years, to provide complete security of oil supply.

The BNOC triumph caps an 18-year effort by the British Labour Party and industrialists associated with the British Petroleum Company to develop the energy resources of the North Sea — bucking the efforts of the Rockefeller family's Standard companies, Exxon, Mobil, and the Rothschild family's Royal Dutch Shell to suppress such new energy resources. Its success will mean the end of these monetarist oil majors' current 50 percent control of the United Kingdom oil market. Moreover, BP and BNOC, in cooperation with the Italian, French, German, and Belgian national companies, are planning to move North Sea oil in quantity into the West German market — a critical Exxon profit center — as well as the rest of Europe.

Britain's fight for North Sea development has been conducted for the express purpose of providing more and cheaper energy for both industrial development and high-technology exports to the Third World. That pro-growth strategy is diametrically opposed to the long-standing energy policy of the monetarist majors, whose entire financial history has been based on finding the oil or gas first, in order to sit on it — driving up prices and bankrupting competitors. Admittedly, in the North Sea as elsewhere, the preferred Exxon-Shell strategy has been to have no one find it at all.

As a result, BP, European government companies such as ENI (Italy) and CFP (France) and U.S. and UK independents like Phillips have made every major "first" discovery in the North Sea. (BNOC was not established until 1975.) Together, the BP-independents group accounts for 40 trillion of the 50 trillion cubic feet (TCF) of North Sea gas reserves so far identified, and 190 million of the total 250 million tons per year (mt-y) peak production of oil projected for the North Sea (British and Norwegian areas).

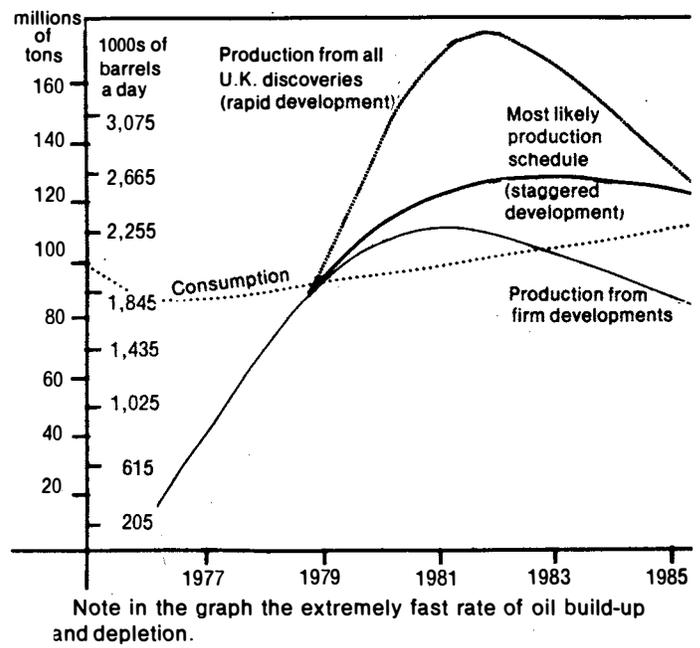
The North Sea project did not derive from a conservationist "energy independence" policy for oil. It has always been a part of a broader energy expansion program to phase out Britain's backward coal economy, on which 80 percent of national energy supply depended in

1959 when North Sea exploration began. The overall program has been aimed to modernize industry with an integrated natural gas and oil policy and the world's oldest non-military nuclear energy program.

North Sea oil production is oriented toward maximum short-term output (meaning maximum depletion rates).

Figure 1

UK Annual Oil Production And Consumption To 1985



(Fig. 1). Britain does not intend to sell the oil to pay its debts, as New York bankers demand. Its energy and financial benefits are to be reinvested, as Energy Minister Benn has pledged, in a forward-looking fast breeder nuclear fission and fusion program.

North Sea oil, BP's ex-chairman Eric Drake stated recently, is "an extra breathing space... (to) give us more time... to realize the full potential of coal, gas, oil, and nuclear power... without a decline in living standards." BP Managing Director A. Walters told a European energy conference last December that Europe must build another 800 nuclear power plants by the time the North Sea is depleted, since "solar, wind, wave, and such

energy types can never supply more than 5-6 percent of our needs at best."

The development of the North Sea has been part of the post-1945 international war over energy resources and energy policy. U.S. independents, and Europe and Japan through their national oil companies, were compelled to challenge the high-price cartel operated by Standard and Royal Dutch Shell after World War II. With the stagnation of industrial development under the Marshall Plan, there was an incredible glut of oil, so that the monetarists kept up prices by restricting production everywhere but in their own Saudi Arabian and Venezuelan preserves. When the Standard companies succeeded in having BP thrown out of Iran and deprived of 75 percent of its oil, BP and the Europeans began to move toward heavy exploration. To lower prices, they had to bring in more oil.

In rapid-fire order, Italy's ENI, headed by Enrico Mattei, BP's former "correspondent" oilman in Italy, BP itself, and then France's CFP made arrangements with the Soviet Union for purchases of 15 million tons per year by 1969. Simultaneously, Pierre Guillaumat, the Gaullist Directeur des Carburants in France, ordered a large-scale increase in the output of Algerian oil and gas, whose proximity to Europe meant further price declines. U.S.

with BP in Alaska in 1959; Hunt Oil and BP worked together in Libya and Phillips' Executive Vice President W.W. Keeler negotiated new exploration rights in the Soviet Union.

With Britain in the lead, Europe opened yet another energy front — nuclear power. The UK in the early 1950s led even the U.S. with its Calder Hall program of plutonium production, which had second stage reactors generating electricity by 1956. During the 1956 Suez crisis, the British nuclear program was revamped to permit 6,000 megawatts of electricity to be nuclear-generated by 1965 — (Britain's total capacity today is the largest in Europe, at 8,097 MW).

The UK nuclear reactor program was based on the "proliferation" of UK exports to the continent. Although Euratom, the nuclear arm of the European Communities, was U.S.-organized and NATO-controlled, the French, with British support, in 1957 presented "A Target for Euratom" to that body, demanding a 15,000 MW nuclear electricity program for the EEC by 1967.

The Rockefeller oil companies were terrified. NATO's Organization for European Economic Cooperation and Development issued a series of reports on "Cutthroat Energy Competition," asserting that anyone who tried to develop nuclear energy would be bankrupted because of the glut of oil already on the market. Finally, Congress signed a \$350 million aid program for the continental European nuclear industry, to persuade Europe to at least buy American reactors instead of British.

What originally opened the North Sea for gas exploration was the development of a process to liquify and ship natural gas which had been burned as waste at the oil wells in vast quantities before then. In Feb. 1959, the government's British Gas Corporation, which runs Britain's domestic gas network, took the first shipment of liquified Louisiana natural gas from the U.S. independent, Continental Oil, which had developed the

process. The implications for France's Algerian gas and the Middle East were obvious.

Exxon and Shell immediately tried to get in on the deal, and when they failed, they played a forced hand. The Exxon-Shell joint venture which runs the Dutch oil and gas market announced in August 1959 the existence of an astoundingly large natural gas field at Greningen on the Dutch coast — right in the heart of the pivotal European energy market. Greningen is the second largest gas field in the world, and so large it supplies most of French, Dutch, Belgian, German, and half of Italian gas needs today. The Continental-British gas venture folded with this "discovery" and it seemed the monetarists has won another monopoly.

But Dr. George Lees, BP's chief geologist, immediately saw what the announcement of Greningen made inevitable — the huge field's structure must extend under the North Sea, with the possibility of greater gas and perhaps even oil development. Lees, who had personally made many of BP's key finds in Iran, Iraq, Kuwait, and around the world, was also the foremost expert on Britain's own geology, since under his direction BP had been the only company to drill for on-shore oil in Britain itself. In the fall of 1959, BP initiated a series of exploratory seismic ship voyages to chart the geology of the North Sea.

To Shell-Esso, as the Rockefeller-Rothschild ^{independents such} venture was formally called, this was a calculated disaster; they, of course, had known of Greningen all along (and indeed had explored every corner of Holland, Shell's home base, for over 20 years). Lord Bageh, one of the brains behind the BNOC, charged as much in 1974, noting that Greningen's "true magnitude was not, at any rate publicly, acknowledged for a very long time."

The Shell-Esso plan was, first, not to offer cheap Greningen gas to Britain, but to propose oil gasification, still at a price cheap enough (7 d-therm: old pence per thermal unit) to undercut the Louisiana gas deal (at 8 d-therm). Gas in Britain, as in France, has always been government owned, with set costs, such that it would be very difficult for Shell-Esso as the gas supplier to get in on the distribution networks and control prices at all levels the way they do with oil. Christopher Tugenhat, the British independent oil man, noted that, "In Belgium, Holland, and Germany, municipalities had the local gas monopolies, which the companies greatly preferred, since they can buy their way into the district organizations which supply the cities and sell directly to large industrial customers....But in Britain and France, this is impossible."

In 1961, Britain made 94 percent of its gas supplied to homes and industry from coal and water, and some 2 percent from oil gasification. With the new oil gasification, the use of oil in the gas industry tripled, from .5 million tons in 1960 to 1.5 million in 1965. The plan was to go completely to oil by 1974 and turn the gas industry into a customer for 25-30 million tons of oil a year — about 25 percent of British oil consumption today, and no mean addition to the shrunken world market.

All the while, prices to Britain at 8 d-therm, while lower than the coal gas price of 12 d-therm, were being artificially kept twice as high as sales of Groningen gas on the continent at 4 d-therm.

Meanwhile the Shell-Esso strategy was to lock up as much of the promising areas of the North Sea as possible, to make sure no one developed it. Shell-Esso would be "in a very difficult position when large reserves were found in the North Sea," Tugenhat commented, since it would destroy the high price of Groningen gas. Since Shell-Esso had known of Groningen for years, they also had a much better map of the North Sea than anyone else — but BP was overtaking them fast. Shell-Esso therefore led the push for a first round of North Sea exploration licenses to be granted as soon as possible and covering as much territory as possible, before the fall 1964 could bring in the Wilson labour government with its expert energy team.

A British National Oil Corporation

As early as July 1973, Professor Peter Odell, colleague of Wilson's top economic advisor and of the present No. 2 man at BNO, Lord Balegh, was calling for a *state oil company* to manage North Sea development and British oil imports. "Labour, it would seem, would support the coal industry, saying oil will run out and where will we be... but this will tie the country to a high cost source of energy, inhibit our competition in world markets with other industrial countries... which a Labour government, dedicated to increasing the country's rate of economic growth, could not afford... A program based on a radical approach to energy supplies and costs is worth considering," he wrote in "Labour's Policy for Oil," an article that appeared in *New Statesman*.

Odell attacked the artificially high oil prices charged to Britain, noting most of the rest of Europe was getting a 60 cent discount per barrel of crude from the posted price due to the glut. The government "should set up a state owned refining company" to pick up cheaper crude from ENI and other independents, and force the majors to sell crude, "and thus establish price levels."

The savings on energy should be split three ways, said Odell: one-third to the British consumer, one-third to phasing out and industrializing the coal mining regions, and one-third to the industrial development of the OPEC nations.

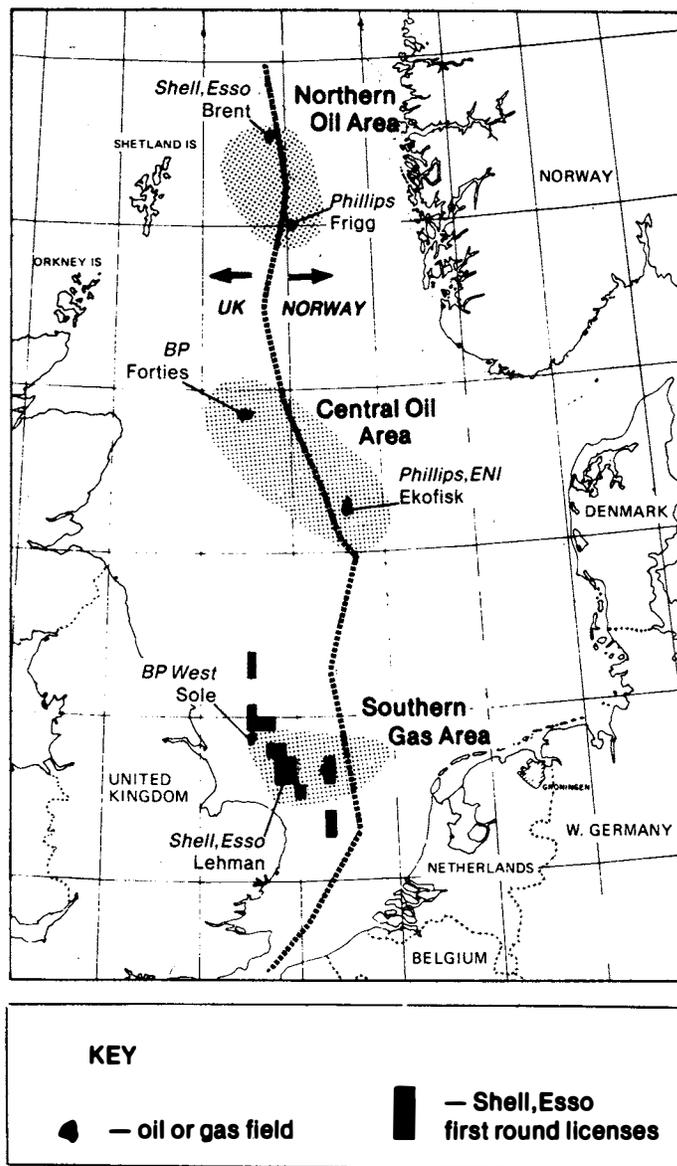
The state oil company would also take charge of the rapid development of North Sea resources and was pushed by Balegh from the beginning. "The physical possession of oil in times of emergency," he wrote, "cannot be matched by mere taxation." It was an integral part of the upcoming Wilson government's plan to stop the destructive effects of continual sterling crises upon the economy through a planned restructuring of industry under a high-technology state sector. A national oil company, wrote the *Guardian*, "must be established if Wilson's vision of a new, dynamic state enterprise is to have real meaning."

A state oil company pushing fast development of the North Sea, along with Odell's pricing proposals, would have totally wrecked the Exxon, Mobil, Shell price structure for Britain, and severely weakened prices around the world. In record time, Exxon et al. pushed the governments bordering the North Sea into a treaty establishing territorial claim to the North Sea, at the May 1964 Geneva Sea Law convention, and one week later the Tory government announced that the first round of North Sea licenses had been granted. Fully 40 percent of the entire

UK sector of the North Sea, the richest area, had been given away with no conditions. BP got its fair share, but the fields taken up by Shell-Esso were the lion's share of what eventually became the southern gas district and the central oil district (Fig. 2). But at the time, Exxon and friends announced no discoveries.

Figure 2

The Major Hydrocarbon Provinces



The map shows: a. Area licensed to Shell-Esso under the Tory first round of give-away licenses. b. Eventually-found concentration of gas fields in exact same location.

Source: Shell Briefing Service, Sep. 1974

At each stage in North Sea development, discoveries by BP or its allies forced Shell-Esso to cough up some of what they were sitting on to maintain their share of the British market. In November 1965, BP announced the West Sole gas field, the first major hydrocarbons strike

in the North Sea. Immediately, in February 1966, BP signed a contract with the British Gas Council to sell the gas as 5 d-therm, decisively undercutting the oil gasification price of 7 d-therm, with provisions that the 15-year contract "could be renegotiated with the price significantly below the level adopted in this first case" when more gas was found.

The BP deal not only dissolved the price cartel, but set up a state natural gas industry. A 1965 Labour ruling called for British Gas to be the sole buyer of North Sea gas, though the other companies had demanded the gas be sent abroad to keep high prices for oil in Britain. The BP deal created a British natural gas market and forced

the rest to sell to the state. Oil gasification had been defeated.

With the BP deal in its pocket, the Labour government devised a plan for cheap energy to British industry and higher consumption levels for the population. In early 1966 the Balegh energy group began studying a proposal, based on the high availability of North Sea gas, to triple UK gas consumption from 4.5 billion therms in 1967 to 13.5 in 1975. In doing this, the coal, water, and oil gas production, which then accounted for 100 percent of British gas supplies, were to be totally phased out and replaced by North Sea natural gas, run by the state. (Fig. 3).

Figure 3 — Evolution Of British Energy Sources

3a. Sources Of Gas						
	1950	1960	1968	1970	1973	1974
GAS MADE						
COAL GAS	1,887	1,732	768	296	} 31	} 10
WATER GAS	405	446	141	40		
OIL GAS	3	65	1,885	1,336	677	590
ALL TYPES	2,295	2,243	2,794	1,672	708	600
NATURAL GAS ALL TYPES	321	690	2,077	4,646	10,906	13,000
TOTAL UK GAS CONSUMPTION	2,616	2,933	4,871	6,318	11,614	13,600

Source: UK Energy Statistics Digest, Gas Council, Annual Reports

3b. Retail Prices For Energy

INDICES, JANUARY 1962=100

	1964	1967	1970	1973
GAS	109	114	126	146
ELECTRICITY	114	130	146	175
COAL	107	127	162	208

SOURCE: UK ENERGY STATISTICS DIGEST;
GAS COUNCIL, ANNUAL REPORTS

3c. UK Overall Energy Consumption

(MILLIONS TONS COAL EQUIVALENT)

	1958	1970	1975	CHANGE 1970-75
COAL	202	154	104	- 50
OIL	47	147	129	- 18
NUCLEAR	.1	10	NA	
NORTH SEA GAS	.1	16	46	+ 30

The charts show: a. Due to BP and the Philips consortium's aggressive exploration policies, Britain was able to phase out oil used to make domestic gas, and hike its consumption of North Sea natural gas. b. Gas prices helped keep overall energy prices low. c. Gas consumption lowers oil dependency.

Conversion of the entire nation's gas appliances to accommodate the natural gas, which was twice as rich in caloric value as coal gas, was decided upon (rather than watering the North Sea gas down). Though conversion was estimated in 1966 at over £400 million, watering the gas would have meant large and continuous capital expenditure on outmoded watering plant. More importantly, the effective capacity of the existing storage and distribution network natural gas. It was estimated that conversion would in fact save £1.4 billion.

The government similarly made a commitment to bring industry, which could not use gas unless its price declined drastically, off oil and onto British gas. Fully 5 billion therms out of the projected 1975 consumption of 13.5 billion was to go to heavy manufacturing "to reduce industrial costs and improve the international competitiveness of British industry," wrote A. Reid in "The Nationalized Fuel Industries."

This huge market, Shell-Esso could not stay out of so, in April 1966, they announced the huge Lehman Bank gas field in block 49-26. If they had not, the independent groups next door in blocks 49-27 and 28 led by British Gas, Amerada, Arpet, and British Sun Oil, might have announced it.

As a flood of new fields were discovered, British Gas killed the Shell-Esso price cartel for good. BG announced their new offering price "to increase consumption with as much price reduction as possible to the final customer" : 1.8 d-therm, less than half of the initial BP contract price and well below the lowest selling price for Groningen gas at 4d-therm. It was BP ally Phillips, leading a consortium of the Italian, French, and Norwegian state oil companies, which first agreed to a compromise price of 2.5 d-therm, forcing all the rest to follow and bringing down the rate structure across Europe.

Stage Two: North Sea Oil

During the gas stage of North Sea development, Royal Dutch Shell geologists were the most vociferous pessimists as to the likelihood of finding oil; but the Shell-Esso group still took up all the right areas. During the first three licensing rounds in May 1964, November 1965, and September 1969, they locked up choice blocks in what are known today as the central and northern oil formations. But no discoveries were announced.

Meanwhile, the Labour Party was pushing hard to undo the licensing precedents set by the Tory first round in May 1964, when 40 percent of North Sea was given away for nothing. In late 1967, the Labour Party National Executive Committee issued a formal White Paper entitled "A National Hydrocarbon Corporation," defining what has today become the BNO. The main points of the White Paper:

"To adopt a National Hydrocarbons Corporation (NHC) for exploration, storage, transportation, refining, and marketing of North Sea gas, and oil if discovered; to engage in exploration partnerships and to be responsible for importing liquefied gas from North Africa and the Western Hemisphere. To adopt a scheme similar to the Norwegians' who have the options to take 40 percent of the share in discoveries if made, and in return share in the costs of exploration and development..."

A bill establishing an NHC was put to the 1969-70 Parliament, but was stopped by heavy lobbying by Exxon, Mobil, and Shell, backed up by the U.S. Department of State. After David Barran, chairman of Shell U.K., denounced the Labour Party's "excessive intervention," Henry Kissinger's State Department informed Britain that BP's explorations in Alaska were in grave danger if any nationalizations occurred in the North Sea. The bill was voted down and the Labour Party fell from power at the end of 1970.

But by that time, BP and the independents had changed the face of the North Sea for good. In December 1969, Phillips, together with the Italian state oil company ENI, the French state companies CFP and ELF, and the Belgian state company Petrofina, announced the first significant oil strike in the North Sea, the giant Ekofisk field, in the central area on the Norwegian side. At the same time, the Gas Council and Amoco struck oil, in what was not determined until 1972 to be the Montrose field; BP announced the first major UK strike, the huge Forties field; Amoco announced the Tor field in Norwegian waters; and the Phillips group again struck oil in the Josephine field.

By November 1970, structures whose peak production will total 74 million tons per year, or more than half of Britain and Norway's combined oil consumption, had been found by BP and the independents — without a single strike announced by Shell-Esso! Finally in February 1971, Shell-Esso announced the small Auk field in the central zone, and an extension of the Forties into their own block.

The Northern zone was similarly opened up by the independents, this time the French CFP and Elf with the Norwegian government's Statoil, who, as the Petronard Group, announced the major Frigg gas field in June 1971. Shell-Esso then announced they had found "some oil" in the Brent field in the north, but it was only after they snapped up more of the area under the August 1971 third round of licensing, and as British Gas and Burmah Oil were about to announce their major northern discoveries Beryl and Thistle, that Shell-Esso admitted Brent was of major size (August 1972).

By the time the Rockefellers' October 1973 oil embargo hit Europe, the BP-independent group had announced fields totalling 135 million tons per year at peak production, compared to the belated announcements of 46 million tons per year by Exxon, Mobil, and Shell.

January 1974

The Mideast war itself and the Exxon-organized boycott which followed gave the final push needed to the Conservative and Labour parties together to set up the British National Oil Corporation and establish real political independence from the monetarist companies.

On Jan. 8, 1974, Conservative Prime Minister Heath announced he was joining French President Pompidou and Foreign Minister Jobert in their drive to set up oil-for-technology direct barter deals with the Arabs to stop Henry Kissinger's proposal for a consumers' International Energy Agency to "break" OPEC and enforce conservation upon Europe. France announced it had tied up 34 percent of its oil needs in a 40 million ton per year deal for 20 years with Saudi Arabia. Heath "warned the U.S. it intends to seek the same arrangements with the

Arabs, in spite of Kissinger's call for a united consumers' approach," reported the Financial Times. British Trade and Industry Minister Peter Carey and industrialists at BP, British Steel, and Imperial Chemicals toured the Middle East and were promised 40 million ton barter deals by the Saudis, with similar negotiations from Iran, "casting a cloud over the Kissinger effort." Germany and Italy began to follow suit.

On Jan. 9, the Conservative government announced it was forming a new Department of Energy "to speed production programs in the North Sea, methods of expanded coal production, and the choice of the necessary nuclear reactors for an expanded nuclear development program," the new Energy Minister Lord Carrington stated, "My first priority is the quickest delivery possible of North Sea energy." "The new ministry is to be welcomed without reservation," said the Labour Party. Sir Eric Drake, then chairman of BP, urged that "if the transition to future energy needs is to be smooth, investment decisions and research commitments are called for now."

Much was done in New York and Washington to halt these developments, including renewed State Department threats against any British national oil company. The International Monetary Fund even precipitated a political crisis by demanding the Heath government hold an election to demonstrate its mandate in order to receive a \$1.5 billion loan Britain desperately needed for food and energy imports. Heath was eventually forced to join Kissinger's IEA.

But when the Labour Party won the election, Lord Balogh and Anthony Benn from the Wilson days immediately set about establishing the BNO. Balogh opened a strong press campaign, hitting at the theme, "The physical possession of oil in times of emergency cannot be matched by mere taxation." In a major article, "The North Sea Blunder," he lit into the Shell-Exxon suppression of the Groningen field, and the "unacceptable attitudes and policies" behind the May 1964 licensing agreement which they had forced through. "The use of the Official Secrets Act to hide the facts and decisions in this case inflicted grievous damage on the coun-

try's fortunes." As a solution, Balogh called for "a National Hydrocarbons Corporation, which would carry state interest in operating North Sea consortia, both those which will be formed in the future *and those which have been formed in the past.*"

In July 1974, the Department of Energy issued a White Paper proposing the British National Oil Corporation to "invite the companies to negotiate its 51 percent participation in future and previous licenses..." Exxon and the New York banks threatened the government heavily, and the outraged conservative London Petroleum Economist reported that September that if BNO was set up, New York would pull out funds and capital development equipment from the North Sea, destroying it.

British Petroleum, however, accepted the principle of BNO 51 percent participation in its North Sea fields in the summer of 1975, and called the bluff of Exxon and Shell, who didn't dare leave. The BNO was officially created by the Petroleum and Submarine Pipe Act of November 1975.

Today, the tide has turned. Not only has BNO taken over 51 percent of the North Sea, but it has forced Shell and Exxon to accept it as a partner in their own fields. As BNO begins to do its own refining and marketing, the oil from the North Sea will be the edge that drives Exxon, Mobil, and Shell (unless it joins the Europeans) out of the UK and the European energy market.

A working coalition of BNO, BP, Italy's ENI, France's CFP and U.S. independents such as Ashland Oil is now maneuvering to hit Exxon and Mobil where it will really hurt — Saudi Arabia, long the bastion of the monetarists' world oil production strategy. Saudi Arabian oil minister Zaki Yamani is negotiating the nationalization of the Exxon-Mobil-Texaco cartel which controls 99 percent of Saudi Arabian oil production. The British-led group is giving Yamani maximum support for full nationalization — and intends to market Saudi oil in Europe, putting the brothers Rockefeller off the continent.

Arab Output Shows The 'Oil Shortage' Is Baloney

The International Energy Agency released a report last week which concludes that by 1985 the world may find itself short of oil by 14 million barrels a day. James Schlesinger, designated U.S. Department of Energy chief, is currently justifying the Carter Administration's policy of sharply reducing energy consumption by citing just such doomsday predictions concerning "finite oil supplies."

The IEA-Schlesinger "scarce resource" line adds up to a big lie. Proper development of the world economy, including transition to a fusion-based energy system, mandates vastly *increased* oil consumption, and there is

every evidence that the oil is available. To cite only one example, the French Daily *Les Echos* recently estimated that based on current known world oil reserves of 640 billion barrels, a real petroleum shortage would not *begin* to materialize until 1985. And geological surveys reveal numerous relatively untapped areas with sizable additional reserves just waiting to be exploited.

Moreover, the Arab oil producing countries, the source of the cheapest and most accessible oil supplies, have already begun to initiate a major *expansion* of oil production. Leading the way is Saudi Arabia, presently in the midst of an effort to increase its production