War For Oil Market Shows In Fifth Round Of North Sea Hearings

CORPORATE AFFAIRS

British Energy Minister Anthony Wedgewood Benn's announcement Feb.8 of tracts allocated in the "Fifth Round" of North Sea oil lease distribution brought to the surface a war for market share between Exxon, the world's largest petroleum company, and most of the rest of the oil industry. Benn's statement in the House of Commons that the 65 tracts allocated were conditional upon industry support for British "national interest" had the strong backing of most petroleum majors, but provoked consternation at Exxon International Headquarters in New York.

The North Sea oil leasing is also a critical side-issue to the drama now being played out in Aramco's negotiations with Saudi Arabia for a takeover of the consortium's facilities. Negotiations between the British government and the Saudis for oil-for-technology exchanges include proposals to provide Britain with oil in excess of its consumption needs, for international distribution through the two leading British oil companies, British Petroleum and Royal Dutch Shell. In effect, Britain has given the Saudis an alternative world distribution mechanism for their oil, and with it, a key margin of leverage against Aramco. Especially important is that the British have done so despite urgent protestations from the Carter Administration.

All the fifth round tracts are subject to a 51 percent equity participation by the British National Oil Corporation , and a substantial level of development input by participating companies. In ongoing negotiations, the British government is seeking to apply the 51 percent formula to tracts developed before the founding of B.N.O.C. in February 1974. The last lease allocation was in 1972.

Nominally, the issue between the government and the participating companies is the question of majority shareholdings. But Exxon officials fear the use of North Sea oil to carve up Exxon's share of the European refining and distribution market — particularly when the market share of the Aramco consortium is under assault from several sides.

Confidential reports on the British National Oil Corporation's activities prepared by Aramco lawyers say the British government's near-term objective is full "upstream" and "downstream" control of North Sea oil, from the drilling platform to the pump station. B.N.O.C. has reportedly begun negotiations with numerous independent refiners in Britain for partnership arrangements to distribute the 51 per cent of output the national company will control. British press reports link these negotiations to plans by Occidental Petroleum, which has already invested heavily in U.K. refining, and Italy's national oil company ENI, to jointly build a giant refinery on a Thames Estuary island.

Even more upsetting to Exxon, which controls 50 per cent of West German distribution through Esso AG, is the followup to the meeting of five nationalized European petroleum companies in Brussels last November. Following the meeting, which established a "European cartel," outgoing European Community Commissioner for Energy Henri Simonet proposed the use of North Sea oil to supply the European national companies on the continent.

A major part of British Petroleum's announced $4.5 billion capital spending program for the next five years involves construction of new refining capacity in West Germany through Deutsche BP, in joint ventures with West German chemicals and petroleum companies. Traditionally a crude-surplus company, BP is in a strong position — especially with West German support — to challenge Exxon in the pivotal West German market. Majority owned by the British government, British Petroleum has close working relationships with the West German oil company, Veba-Gelsenberg. The British petroleum major was also the major recipient of North Sea tracts, with 13 in the fifth round from a total of 65. Exxon went into the competition for tracts with some reluctance, and was awarded a part-interest (with the Shell group) in three tracts.

Consensus opinion among New York analysts of oil company securities is that the deal likely to be worked out on Exxon's and other U.S. companies' previous North Sea developments will amount to little more than "face-saving" control by the British National Oil Corporation. Currently, the formula that seems likely to emerge from the haggling involves immediate re-sale of B.N.O.C.'s 51 percent of output to Exxon or other partner companies, which one analyst called "playing games." But Exxon officials acknowledge that B.N.O.C. will retain authority to absorb as much of the 51 percent as it deems Britain requires. Hence, Exxon emphasizes, they are totally vulnerable to U.K. government pressure.

Nonetheless, virtually the entire U.S. petroleum industry is going along with the British position. A major vote of confidence for Energy Minister Benn's policy came through Feb. 9, when Gulf Oil announced that it would spend a record $676 million in North Sea development during 1977. Gulf's position eradicates whatever hope Exxon had of bringing pressure on the British government. Over the last several weeks, Exxon had prevailed on other U.S. petroleum majors to threaten a boycott against further North Sea development. But the only U.S. company to take Exxon's side is

Standard Oil of Indiana, which abstained from the fifth round over objections to the B.N.O.C. 51 percent condition.

Other major participants in the fifth round include Union Oil, Kerr-McGhee, Monsanto, Standard of California, Occidental, Phillips Petroleum, Sun Oil, Getty Oil, and a large number of U.S. "independents."

Meanwhile, developments on the European continent indicated a further weakening of the Aramco market position.

The French Industry Minister D'Ornano announced at a meeting of the Council of Ministers Feb. 8 that French industries should arrange to trade technology exports for oil with Saudi Arabia. Oil industry sources view the D'Ornano initiative as an escalation in the French government's open warfare with foreign companies in France over the domestic oil market. The French government wants the two French state-controlled companies, Elf-Erap and the Compagnie Francaise des Petroles, to dominate the local oil market.

In Italy, officials of Montedison, the half-state, half-private sector petrochemicals giant, announced they had contracted with the Saudi state oil company Petromin for a "substantial" volume of direct sales. The announcement occurred during a trip to Saudi Arabia by the chief executive of Italy's national oil company ENI, indicating the deal was arranged at a high level of the Italian state sector. Italy now receives 10 percent of its total oil imports through direct deals with the Saudis, bypassing the Aramco consortium.

There are strong indications that oil industry maneuvers against Exxon's market share in Western Europe are related to a powerful behind-the-scenes support operation for Saudi Arabian Sheikh Yamani's plans to place the Aramco consortium under state controls. Centering on British Petroleum, a working alliance of European and U.S. oil and construction firms is trying to counteract the intense pressure on Yamani from the Carter Administration to leave Aramco in place.

In the context of negotiations to nationalize Aramco, long-standing attempts by non-consortium U.S. companies to bypass Aramco and deal directly with the Saudis have taken on fresh importance. Previous attempts by crude-short U.S. companies, notably Ashland, to gain direct access to Saudi crude, were spurned. But some industry insiders believe the Saudis may now use numerous U.S. offers to bypass Exxon, Texaco and Mobil as a means of buying political leverage in the United States, at Aramco's expense. Combined with the contraction of Exxon's market share in Europe as European oil-for-technology agreements come on line, a Saudi-American effort to undercut Exxon and its partners in their home market would shatter the Exxon cartel's world petroleum market dominance for the first time during this century.

U. S. Asks For Dollar Devaluation

FOREIGN EXCHANGE

Carter campaign advisor Lawrence Klein, a Wharton School of Finance professor, answered the question of what the Carter Administration would do after the West German and Japanese rebuff to its reflation proposals, in Congressional testimony Feb. 9. Klein, whose testimony was given priority coverage in financial news media, called for a ten percent revaluation of the deutschemark and yen with respect to the U.S. dollar.

Although Klein spoke in no official capacity, West German and Japanese central bank officials treated his views as a quasi-governmental sally from Washington. What, Japan central bank governor Morinaga asked in a press statement released Feb. 10, could Lawrence Klein have in mind, since the world monetary system is now subject to freely-floating exchange rates? Morinaga stated emphatically that Japan would under no circumstances intervene to strengthen the yen. Nonetheless, the yen rose from 289 to 285 to the dollar over the week's trading, which traders attribute to the Klein testimony.

In a press statement Thursday, West German Bundesbank vice-president Otmar Emminger warned that West Germany would stick to a "clean float" policy, despite the 14 percent appreciation of the deutschemark during 1976 and resulting potential harm to West German exports. In a commentary Friday, the leading West German business daily *Handelsblatt* cited the Klein proposals and warned that Carter "wants a fundamental economic policy change," and "elimination of West Germany's and Japan's trade surpluses."

This international fluff over an obscure remark by an individual outside of government could not be explained except by reference to an exceptional background situation. "If the United States stimulates alone, by passing out $50 bills to everyone and gunning the money supply, we might simply export the expansion. Americans will buy 'undervalued' Japanese and German goods, thus putting foreigners to work, until the expansion fizzles out. We'll be left with a huge trade deficit, a plummeting dollar and double-digit inflation. President Carter wouldn't like that."

The *Wall Street Journal*'s commentary Monday on the Carter administration's proposals that Western Europe and Japan reflate in tandem with the United States —

LEADING CURRENCIES vs. U.S. DOLLAR

	Thurs., Feb. 3	Per cent Change vs. U.S. Dollar	Thurs., Feb. 10
Deutsche Mark	.4129	+ .6	.4154
French Franc	.2009	+ .1	.2012
Swiss Franc	.3974	.0	.3973
British Pound	1.7150	.0	1.7160
Japanese Yen	.003471	+1.0	.003503