Business Brief

Who does best out of America's 43% of North Sea oil

North Sea oil has not only been a lifesaver for the British economy, and a bonanza for a few parts of Scotland, it has also proved a healthy boost to profits for a number of small and medium sized American oil companies. In all, 43% of the oil planned for development, British and Norwegian, will flow through North American hands.

In absolute terms the biggest company does best, of course. By the early 1980s, **Exxon** could be getting a net cash flow, after all British taxes, of \$350m a year from just one field: Brent. But the company's overall earnings (net income 1976: \$2.6 billion) rather dwarf such figures. For the oil majors, the North Sea is just another province, providing any number of striking photographs for the annual report, but no more than run-of-the-mill oil production or profits.

Most of the big boys have put in an appearance in the North Sea—**Mobil**, for instance, has 13% of Statfjord, and bits elsewhere—but their success in finding oil has been varied (see map and table, which excludes a few very small holdings). To start among the also-rans:

Amoco, also known as Standard Oil of Indiana, has been dabbling in the North Sea for years, starting with its involvement in the southern gasfields. Its shares of the Indefatigable, Leman Bank and Rough fields produce around 260m cubic feet of gas a day, worth around \$24m a year at British Gas's monopsonist prices. That is around 3.5% of Amoco's worldwide gas turnover.

Just over half its oil reserves lie in the Montrose field, for which it is operator. Montrose should start giving earnings per share of around 9 cents this year rising to 14 cents by 1980, according to Wood Mackenzie, the Edinburgh stockbrokers and North Sea analysts. (For comparison, net income per share in 1976 was \$6.09.) The company has also had good exploration results recently.

But its present North Sea total of 105m barrels of reserves (boosted by tiny shares—under 1%—of Ekofisk and Statfjord) is small beer compared with the December, 1976, company total of 4 billion barrels of reserves worldwide.

Gulf Oil went into the North Sea early, drilled lots of dry holes and ended up with a mixed bag of fields and around 320m barrels of reserves, some in fields with relatively poor rates of return by industry standards. They will not give Gulf much crude either—perhaps 22,000 barrels a day (b/d) in 1980—compared with Gulf's 1976 production worldwide of 1.7 billion b/d.

Texaco, another company with bad luck in its exploration record, bought a 24% share of the Argyll field, Britain's first North Sea field, in November, 1974, seven months before production began. Profits from the field have been shortlived, since water encroachment now looks like curtailing production, perhaps as early as 1978. Still, capital costs were low, so Texaco gets a reasonable return on its money, and perhaps an average of \$10m a year in pre-tax profits from the field in the two moneymaking years of 1977 and 1978. The company is hoping for better things from its Tartan field, in which it owns 100% of the estimated 250m barrels of reserves. But the project is one of the North Sea's less attractive undertakings. Cynics in Aberdeen suggest that a desire to be seen working as an operator in the world's busiest offshore oil province may have helped to persuade Texaco that the figures looked a little rosier.

Other big firms in the North Sea include **Conoco**, with the bulk of its reserves tied up in Statfjord, the North Sea's biggest oilfield. Sometimes called "the world's biggest marginal field" by oilmen disenchanted with the Norwegian government's cautious attitude towards the development, it certainly holds a lot of oil—but it too may work out expensive.

Still, do not pay too much attention to the oilmen's grumbles: even expensive North Sea oil is still likely to be a lot cheaper—perhaps \$3-\$4 a barrel cheaper—than oil of the same desirable quality from Opec. Which is what keeps crude-short companies like Texaco, with huge distribution and marketing networks to supply, in the game.

Socal, the remaining American major, has needed the oil slightly less, and has confined its North Sea interests largely to developing the Ninian field (of which it owns 17%).

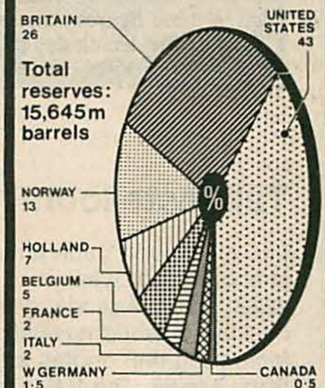
Small fry

These are the giants of the industry. The pattern of their North Sea involvement has been largely through joint ventures, traditional for decades when risking capital outside the United States. It cuts down the risks—but it cuts down the profits too. The British government's system of block allocation also has diluted the potential profits. So none of the American majors is in line for a burst of real good fortune of the sort that Forties gave its 100% owner, BP.

Smaller North American oil companies are very differently placed. The nature of the United States' law on oil discoveries—the so-called "law of capture"—has historically encouraged a proliferation of small companies. Present tax rulings ensure their continued existence. Few of the very smallest companies have tried their luck in the North Sea. Even medium-sized companies, which in any other industry would be regarded as financial heavyweights, have had to weigh the risks carefully. For some it has paid off spectacularly.

Occidental has had another coup in the North Sea to add to the spectacular impact it made, hard on the heels of Continental, on the cosy circle of the seven sisters during the 1960s. It has

Carved up
Ownership of proven North Sea oil reserves, by nationality of oil company



Royalty and participation arrangements mean that companies do not have complete control over this oil

worldwide sales of \$5½ billion, which puts it 26th in the Fortune 500, 12th in the rankings of American oil companies, (Exxon tops the list with sales of \$49 billion).

But it is just small enough to be significantly affected by North Sea success. Mr Armand Hammer, backed into a corner when the Libyan government nationalised his oil concessions there, pushed development of the Piper field ahead as a personal ambition—authorising the field on the basis of one well, it is said. It paid off.

Occidental's earnings per share from Piper and Claymore (the nearby field, developed in tandem by the same group and due to start production later this year) are estimated in New York at \$0.93 in 1977, \$1.96 in 1978, \$1.89 in 1979 and \$1.79 for 1980. Earnings per share for the whole group were \$2.27 in 1976. (These figures are based on 80m fully diluted shares, rather than the 57m for common shares outstanding. They include the new, more rapid production rates recently authorised by the government, and assume corporation tax of 42%.)

In fact, Occidental's overall oil and gas earnings have recently risen sharply, helped by those Piper profits. First quarter net income from oil and gas rose to around \$26m—10 times the figure a year before. The investment in Piper may well be repaid by the end of the year.

One of Occidental's partners in the two fields is **Getty Oil**. Getty's earnings per share from the North Sea (calculated on the same basis as above) are \$2.68 in 1977, \$5.22 in 1978, \$4.92 in 1979 and \$4.59 in 1980. Earnings for

Front-runners and also-rans

North American companies' reserves in present commercial fields.

	m barrels		m barrels		m barrels
Exxon	1679	Texaco	256	Murphy	77
Phillips	974	Allied Chemical	242	Odeco	77
Mobil	711	Socal	187	Ranger	66
Conoco	682	Amerada Hess	171	Tenneco	46
Occidental	442	Texas Eastern	157	Ashland	27
Getty	326	Amoco	105	Hamilton	9
Gulf	320	Santa Fe	81	**Total**	**6,636**

Estimates. Source: Wood Mackenzie

Business this week

Talkfests loom

IMF and World Bank annual jamboree next week in Washington. Agenda: getting the hesi out of world hesiflation; increasing IMF quotas and World Bank capital. The IMF's managing director, Mr Johannes Witteveen, will step down at the end of his five-year term.

President Carter's tax reforms may reduce business taxes. Second-quarter growth figures revised upwards, to 6.2% annually adjusted, but indicators showing an end-of-sûmmer lull sent Dow Jones down to a 21-month low.

Down, down, down go German growth estimates. Outgoing economics minister Hans Friderichs says only 3% this year.

France expects 1977 growth of 3%, but export-led 4.5% in 1978, when the government plans to continue wage restraint and its 6.5% "norm" for price rises.

The world steel crisis is getting worse. America's Lykes Corporation has closed a plant, laying off 5,000 workers. Japan offers lower exports in return for higher prices. European losses are remorselessly mounting up.

India plans to open three quarters of its capital-goods market to foreign competition, as foreign exchange reserves rise past $4 billion mark. But wants to Indianise its little bit of IBM.

The EEC urged companies with South African subsidiaries to improve pay and conditions for black workers.

Italy's balance of payments hit a record surplus of $1.4 billion in August, as imports fell and the balance of trade moved into the black.

An American senate report predicted international debt crisis, saying $50 billion of Arab short-term holdings threatens the west.

Jugoslavia's balance of payments moves towards a $1.5 billion deficit for 1977. Import curbs likely.

Australia expects to invest $22 billion in energy over the next decade, but says the EEC won't get uranium without softening its farm policy.

Devaluation has brought improvement in Spain's gold and foreign reserves, and record tourist receipts in July ($683m).

The EEC failed to agree on its attitude for the world sugar talks, blocked by France.

Citibank launched the largest-ever corporate Eurobond issue: $300m in two tranches.

Some bad news

Awful British September unemployment figures. Another 56,000 school leavers have jobs so the crude total fell. But an extra 29,000 adults were out, and the seasonally adjusted total figure hit 1.45m—a post-1945 record. Gdp was down in the second quarter. Earnings rose only 8.8% during the 12 months of stage-two controls. In sum: more pressure for reflation.

The bakery workers went back to work. Miners' leaders shelved a £135-a-week claim and started talks on a productivity deal—both in contradiction of their union's conference decisions. But farmworkers put in for a minimum of £60. Ford workers said no to the company offer of about 10%. Leyland got a new strike at its bus and truck division, and yet another warning from the NEB. A Belfast company was told by the government to renege on a 22% settlement: unions demurred.

BAC signed a £500m contract to run the Saudi airforce.

Sir Eric Miller, former and controversial boss of Peachey Property Corporation, died from gunshot wounds on Thursday.

Construction company Tarmac revealed it could lose up to £12m on Nigerian contracts.

Mrs Thatcher's solution to a possible Tory confrontation with the unions: a referendum.

Key indicators: **Major economies**

	% change (at annual rate)								Trade balance† $m		Unemployment 000's			Exchange rate‡
	Industrial production		Wages/earnings§		Consumer prices*		Money supply** M¹			12 mths	% rate		since	per $
	3 mths	1 year	3 mths	1 year	3 mths	1 year	3 mths	1 year	latest	to date		latest	3 mths	
Australia	− 6½	nil (5)	+19½	+12½ (4)	+10	+13½ (5)	+ 7½	+ 9 (7)	− 26 (5)	+ 1300	5.4	337 (7)	+ 14	0.91
Canada	+ 5	+ 3½ (7)	+14½	+11½ (5)	+10	+ 8½ (7)	+19	+ 9½ (6)	+ 31 (6)	+ 1300	8.0	847 (6)	− 90	1.07
France	− 3	+ 4 (6)	+ 9½	+13 (4)	+11	+10 (7)	+ 6	+ 8 (5)	− 378 (8)	− 4900	na	1216 (8)	+119	4.92
W. Germany	nil	+ 3½ (7)	+ 6	+ 6½ (7)	+ 1	+ 4 (8)	+15½	+ 8½ (7)	+ 700 (7)	+14800	4.6	1052 (8)	+ 14	2.32
Holland	− 3	nil (6)	+18	+ 6 (7)	+ 1½	+ 7 (8)	+17	+ 7 (3)	− 210 (5)	− 1100	5.1	220 (8)	+ 18	2.47
Italy	−14	+ 1½ (5)	+38	+35 (4)	+10½	+19 (7)	+ 6½	+19 (3)	− 550 (5)	− 6000	6.6	1432 (4)	− 27	883
Japan	−11½	+ 1 (7)	+ 8½	+11 (5)	+ ½	+ 9½ (8)	− 2½	+ 6 (6)	+1712 (7)	+13800	2.1	1160 (7)	+154	267
Sweden	−13½	− 3 (5)	+ 5	+ 3½ (5)	+18½	+13 (7)	+26	+ 6 (6)	+ 27 (6)	− 1000	1.5	62 (6)	− 3	4.85
USA	+ 2	+ 5 (8)	+ 6½	+ 7 (7)	+ 7	+ 6½ (7)	+ 9½	+ 7 (8)	−2326 (7)	−19000	7.1	6926 (8)	+ 7	1.00
Britain	− 4½	nil (7)	+ 4½	+ 9 (7)	+ 7	+16½ (8)	+21½	+12 (8)	+ 245 (8)	− 5300	6.1	1446 (9)	+ 94	1.74
UK indices 1970=100	102 (7)		286½ (7)		261½ (8)		215 (8)							$ per £

*Small figures in brackets denote month of indicator. All figures seasonally adjusted except where stated. §Hourly wage rates in manufacturing, not seasonally adjusted; except for USA, Canada and Sweden (average hourly earnings), Japan and UK (average monthly earnings), seasonally adjusted. *Not seasonally adjusted. **Netherlands, Sweden, not seasonally adjusted. †USA, Canada, Australia, Japan, France and UK imports fob, exports fob. All others cif-fob. ‡Wednesday closing rates in London.*

the company, not strictly comparable because of the reorganisation of Paul Getty's companies, were $13.08 per common share in 1976. The new, merged Getty, has another source of income included in those figures—Skelly Oil's 36% of the Heather field, with reserves of 150m barrels, due to flow in 1978.

Getty, like Occidental, is a fully integrated international oil company. But the bulk of its production has traditionally been in the United States—and this has been true, too, of **Phillips Petroleum**, which also is a big name in the North Sea.

Phillips's reliance on American crude has been falling as the company has diversified into other areas of supply. It has a lot of oil to draw on through its share in the first Norwegian oilfield, Ekofisk. But Phillips must have felt a little jaundiced about Ekofisk even before the blowout there.

Phillips has been getting oil from the field since 1971, and present production gives the company around 125,000 b/d. But the job of getting the full benefit of the reserves has not gone entirely smoothly or cheaply. For example, use of the gas pipeline to Germany was held up for a while by a dispute about how well it was anchored to the bottom. And the combined capital expenditure for the whole Ekofisk system, which includes another six smaller fields, will have cost Phillips over $1 billion by the time development is finished.

Phillips's full-scale involvement with Ekofisk may explain why three reasonably promising discoveries—Andrew, Maureen and Thelma—have been left untouched, though discovery of a second field very close to Thelma (called Toni) may have made it suddenly more attractive.

Other medium-sized oil companies with medium-sized stakes in the North Sea include **Murphy Oil, Ashland Oil** (and its drilling subsidiary **Odeco**), **Mesa, Kerr-McGee, Marathon, Amerada Hess, Union Oil** of California and **Tenneco**, the American natural gas producer that has grown into a substantial conglomerate. **Ranger**, a small Canadian company, has 6% of Ninian to take it a bit closer to the big time.

The newcomers

The most interesting American companies in the North Sea are those taking their first big step into the oil business.

Allied Chemical is a medium chemical firm, unfairly best known for its involvement with the Kepone scandal, and the $13m fine it had to pay for discharging wastes illegally. It has become a reasonably big figure in the North Sea, the most significant part of its small but growing energy interests. It has 20% of Piper and Claymore, which should give it earnings per share around the $2.30 mark this year (1976 earnings for the group: $4.18 per common share).

Santa Fe International, from Orange, California, is an offshore contractor that suddenly developed a taste for first-hand excitement. It had a turnover of some $435m in 1976, 8% of it from oil and gas sales, the rest from such things as contract drilling, engineering and construction. So the addition of a 22% share of the Thistle field, due for start-up in late 1977 or early 1978, will alter the shape of the business.

Santa Fe expects to get 25,000 b/d of oil next year (worth perhaps $128m over the year at the current selling price) and 35,000 b/d in 1979 (worth perhaps $181m at present prices). To reach this promised land, Santa Fe expects its total spending on Thistle to run to $230m which gives a payback time well under two years.

Wood Mackenzie calculates a dcf return for the whole project of a healthy 32%, helped by a high recovery rate (perhaps 53% of oil in place) and a rapid build-up to peak production.

Texas Eastern, of Houston, got almost all its $1.5 billion revenues in 1976 from running natural gas and oil product pipelines in the United States. As a regulated company it has always been able to earn a small but steady profit, without ever looking very exciting. But as the natural-gas business lost its lustre, Texas Eastern had to find something else to get its money into.

American stockbrokers reckon it now has around 10% of its total capital tied up in junior partnership in a whole range of North Sea oilfields: 20% of Beryl, less than 1% of Statfjord and Murchison, 28% of the small Tor field, which is part of the Ekofisk system, 15.3% of Montrose. It adds up to 157m barrels of more or less confirmed reserves, with a share of Brae and a small field called North West Hutton on the horizon. With this sort of portfolio, plus gas from the southern sector and two good Norwegian fields in prospect, it looks as if Texas Eastern could be getting net earnings per share of 50 cents this year from the North Sea, up to $1 a share next year, rising to nearly $3 a share in the early 1980s, depending on the world price of crude. Earnings per share were $4.40 for the company as a whole in 1976.

Lastly, the company that first produced oil from the British sector of the North Sea: **Hamilton Brothers Petroleum**, one of three interlocking joint ventures from Denver, Colorado. This is a public company with voting stock owned 19.9% by Mr Frederic Hamilton, 23.3% by Mr Ferris Hamilton. Mr Frederic Hamilton, who is 51, is chief executive, but illness means his brother now plays a smaller role. Hamilton Brothers was a pioneer—but the Argyll oil, which provided a third of 1976 sales, is running out. That leaves Canada, where the bulk of its developed reserves lie. But it lists 11m barrels as "undeveloped reserves" in the North Sea—so there is still a chance for a Hamilton Brothers comeback once Argyll runs dry.