

S E C R E T

OPM. Conf. 553/70

No. 1681

MEMORANDUM TO CABINET BY THE PRIME MINISTER

Applications for Oil Exploration and Production Licences

As Ministers are aware, applications for exclusive Oil Production Licences in respect of Area "A" consisting of two blocks respectively lying to the North and South East of Malta were called for in the Notice published in the Government Gazette of July 17th, 1970. Applicants for a Production Licence could also apply for non exclusive Exploration Rights over the whole or parts of a further area (Area "B") covering Malta and the sea surrounding the islands to a breadth between five or six miles, saving the right of the Prime Minister to exclude any part of this area from a grant of an Exploration Licence. Applications were to be submitted to the Prime Minister by 1.00 p.m. on October, 15th.

2. At the time of closing on October 15th, 9 applicants had submitted 14 applications for Production Licences and 3 applications for Exploration Licences. One application by South East Asia Oil and Gas Company which was received after the closing date was returned unopened as being too late to qualify for consideration. The applications received for consideration were as follows:-

A. for Block I

Anschutz Overseas Corporation	- U.S.A.
AGIP	- Italy
Ballinderry Exploration et al.	- Australia/Canada/U.S.A.
B.I.P.M. (Shell)	- Netherlands/U.K.
Home Oil of Canada et al.	- Canada/U.K./Italy
Montecatini - Edison	- Italy

B. for Block II ...

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Anschutz Overseas Corporation	- U.S.A.
AGIP	- Italy
S.N.P. Aquitaine	- France
Ballinderry Exploration et al.	- Australia/Canada/U.S.A.
Home Oil of Canada et al.	- Canada/U.K./Italy
Murphy Exploration Co.	- U.S.A.
Oceanic Exploration Co.	- U.S.A.

C. AGIP, B.I.P.M. (Shell) and S.N.P. Aquitaine applied for Exploration Rights in the Exploration Licence Area (Area "B").

3. After opening and noting the above applications the Oil Committee referred them to the U.N. Advisory Panel, the original Adviser having been joined by a Geophysical Adviser and a Financial Adviser for report and advice.

4. The U.N. Advisory Panel had in the meanwhile reviewed the data held in Malta, and, largely on the basis of records which the Geophysical Adviser was able to interpret, confirmed the views expressed earlier in Memorandum to Cabinet No. 1574 that prospects to the South of Malta in Block II might be different from and better than those in Block I, which lies between Malta and Sicily, both in terms of the numbers of possible locations or features of interest which merit drilling and also in the variety of strata/levels which might be prospective. Both blocks would however be difficult to explore and it would be necessary to allocate the licences to those applicants who were most ready to guarantee the most thorough and appropriate types of exploration. This confirmed the view that the kind and extent of definitely guaranteed work programmes should be the prime consideration in choosing Licensees. Other inducements offered ought to be treated as of secondary importance. The Panel also concluded that the subsurface data which had

recently ...

recently been reviewed confirmed that whilst the division of Area "A" available for Production Licences into Blocks I and II remained reasonable it might be possible, in view of the diversity of prospects appearing in Block II, to segregate the South Western portion of Block II for issue to a separate Licensee offering an independent work programme. Such a proposition could have a very beneficial effect not only by introducing a certain element of competition but also by increasing the variety of logical hypotheses on which exploration of this admittedly difficult region could be based.

5. Since it appeared on the legal plane that a reduction of the areas would not violate the terms of the call for applications, which was distinctively different from a call for tenders, the Oil Committee put forward to the Companies a proposal for the reduction of the concession areas into smaller blocks in order to gauge their initial reaction thereto. The main purpose was to ascertain whether Companies would be prepared to apply existing offers to the reduced area in order that the released portion could produce an added drilling commitment. Both AGIP and B.I.P.M. (Shell) however, have categorically rejected these suggestions. On the other hand, both S.N.P. Aquitaine and Home Oil Co. of Canada are prepared to split Block II in the manner illustrated in the sketch map.

6. The U.N. Advisory Panel have carried out a detailed review and comparison of the applications received in respect of each block and have enumerated the reasons which prompted their grading according to their various features. They also urged that licences should be issued as soon as practical in order that full advantage might be taken of present propitious circumstances, namely the present Middle East oil situation; the likelihood of a certain amount of equipment being available next spring at relatively cheap rates which will encourage Companies to accelerate their

programmes; ...

programmes; and the fact that the Italians have not began allocating licences in Area "C".

7. After review of the Applications and, where necessary, check with applicants it became clear that the Anschutz Overseas Corporation, Murphy Exploration Company and Oceanic Exploration Company are not prepared to guarantee that they would drill. These Applications were therefore excluded from the Short List.

BLOCK I

8. Applications from AGIP, B.I.P.M. (Shell), Montecatini - Edison and the Ballinderry Group were short listed as each of them had offered to guarantee the drilling of two wells in the Block.

9. Ballinderry et al. were considered and discarded:-

- (a) because they had the least experience of Oil Exploration;
- (b) because of their diverse financial structure which would presumably make decision taking difficult; and
- (c) overridingly because their deepest well offered is limited to 10,000 feet.

10. Montecatini - Edison were given very careful consideration because they had presented well worked out programmes and are of course a firm of high repute. The fact that their guaranteed expenditure was very much less than those presented by AGIP and B.I.P.M. (Shell) for much the same work downgraded their offer. The Committee feel certain that they have not taken possible difficulties in drilling sufficiently into account, and it is doubtful whether they have allocated enough money for work at depth - their deepest well is quoted as 15,000 feet. They have therefore been discarded.

11. The ...

11. The two prime contenders for this Block are AGIP and B.I.P.M. (Shell). AGIP is an Italian Exploration and Production Company, with some distribution interests owned as to 84% by ENI, the Italian State Company, and has considerable experience in offshore work, primarily Italian, but is also involved in the East and in the North Sea. B.I.P.M. (Shell) is a wholly owned subsidiary of the Shell Group of Companies, with first class experience of a world wide nature. Both AGIP and B.I.P.M. (Shell) have submitted substantial applications which on cross examination have turned out to be almost identical so far as work and fringe benefits are concerned. They have offered work programmes expected to cost £4,500,000 and £4,560,000 respectively over a period of 4 years and almost identical signature bonuses of £250,000 and £240,000 respectively to be followed by slightly differently scaled production bonuses which, taking a discount factor of 10% into account, would produce £2,130,000 and £2,060,000 respectively. AGIP have also offered two scholarships for five years which, discounted at 10%, would be worth £30,000. These two companies are working together in the Gulf of Manfredonia and elsewhere in the Italian peninsula, and it is quite possible that their applications have been prepared in concert. Both companies are expected to have much the same level of understanding of regional geology for whilst AGIP have access to surveys around Sicily and Lampedusa it will be remembered that Shell surveyed the Malta Area in 1954, and there is little doubt that in the course of their joint operations they will have exchanged ideas and data.

12. After much consideration the Oil Committee recommend that Block I be granted to B.I.P.M. (Shell) on the following grounds:-

- (i) It is assumed that under Italian Law AGIP will have a prescriptive right to any concessions in the Italian offshore area to the North of Block I. The Oil Committee

believe, ...

believe, on the advice of the Advisory Panel, that the most promising part of Block I lies in the North Westerly sector, and it is more than possible that AGIP think this too far, in refusing to consider the split of Block I as suggested by a North West - East line AD, they wrote "Any partition into smaller blocks would result in higher risk and cost, it would slow down operations and lead, in the event of discovery, to complicated unitization problems". If any field therefore discovered in Block I crosses the boundary between Maltese offshore areas and those offshore Sicily, Malta would no doubt prefer to rely upon reservoir appraisals and production arrangements agreed by a non Italian Company which would be unlikely to have other than minority interests on the other side of the border. On the other hand, were AGIP to be selected, Government might face very high supervisory and consultative costs in the circumstances described above.

- (ii) The possibility must also be envisaged, in view of Italy's shortage of gas, that an overlying gas field on the other side of the median line might be tapped as a first requirement, thereby rendering more expensive the exploration of the underlying oil reservoir extending to our side of the border, and possibly reducing the proportion of recoverable oil.

In both circumstances described in (i) and (ii) above it would be reasonable to expect, were B.I.P.M. (Shell) the Licensees of Block I, that Malta would have the advantage of a highly qualified Shell team energetically fighting at least the first stages of any

battles ...

battles save in the unlikely event of Shell having a preponderating interest in a concession on the Italian side of the border.

- (iii) B.I.P.M. (Shell) are certainly not less well qualified as Oil Explorers than AGIP and have more world wide experience in the matter.
- (iv) B.I.P.M. (Shell) cannot be said to be connected to any one Government to the extent that AGIP are, and is therefore less likely to let contentious issues reach diplomatic or political levels prematurely.
- (v) AGIP have throughout negotiations been rather laggardly in providing information. When it has been produced it has generally turned out to be almost the same as that already given by B.I.P.M. (Shell). This is presumably either because AGIP have regarded development in the Malta sector as contingent on developments elsewhere or because they have had to refer to B.I.P.M. (Shell) to check that they are in step with them before making decisive statements. The first possibility suggests a lack of keenness, the second suggests that Government might be better off in dealing with B.I.P.M. (Shell) direct.

BLOCK II

13. The Applicants short listed for this Block are AGIP, B.I.P.M. (Shell), S.N.P. Aquitaine and Home Oil of Canada.

14. AGIP and B.I.P.M. (Shell) have once again submitted almost identical work programmes offering sound preliminary surveys followed by the drilling of two wells (of which one could go to 16,000'). The costs of the

guaranteed ...

guaranteed work are very similar and total \$4.5 and \$4.6 million respectively. The discounted value of the fringe benefits are again very similar, that of AGIP being marginally better. The work and other inducements offered by both Companies for this Block are similar to those put forward for Block I. These are the best single offers for this Block. The Oil Committee feel that if anyone of the Companies is granted the Northern Block I, it should not be considered for Block II.

15. By splitting the Block into two, however, as shown in the attached sketch it is possible to make a better arrangement. Both Home Oil of Canada and S.N.P. Aquitaine are prepared to accept blocks smaller than Block II which do not overlap.

16. Home Oil Company of Canada heads a group of well known exploration companies with excellent world wide experience, including offshore exploration in Far East and North Sea. S.N.P. Aquitaine is an aggressive French Exploration Company, which has a good record of success in finding oil and excellent experience in offshore exploration being a pioneer in production methods for deep water. Both Companies are prepared to offer good preliminary survey programmes designed to supplement data which they have already acquired and follow up with drilling programmes aggregating two 10,000 foot and one 6,000 foot wells. The Oil Committee believe that both Companies would go to the Triassic were it deeper than 10,000' by any reasonable amount. By putting the two together it is possible to obtain a greater volume of work (\$5.47 million) on the Block than would be obtainable from AGIP or B.I.P.M. (Shell) who are not prepared to split the Block or reduce its size.

17. Both Home and Aquitaine are prepared to begin drilling work in 1971 if given licences reasonably promptly. It is in fact understood that Aquitaine has a drilling barge immediately available under option off Tunisia/Libya which it could use for the purpose. These

two Companies are aggressive, experienced, and likely to have a rather different approach to exploration from AGIP and B.I.P.M. (Shell). The Oil Committee think there are distinct advantages to be derived from the employment of a variety of working hypotheses (assuming roughly equivalent plausibility in our present state of knowledge) in exploration work if this is possible. If therefore B.I.P.M. (Shell), or less desirably AGIP, are to take the Northern Block I and it is assumed that their working hypotheses would be similar to each other, then it will be valuable to have the neighbouring Block II explored by Companies of a different size and shape and likely to make a different kind of approach.

18. On the basis of the foregoing, the Oil Committee recommend grant of licences to S.N.P. Aquitaine and to Home Oil Co. of Canada in the manner illustrated in the sketch map.

AREA "B"

19. The Oil Committee also recommend the issue of Exploration Licences to B.I.P.M. (Shell) and S.N.P. Aquitaine - the latter may possibly re-apply for an adjusted area, - and to Home Oil of Canada on request.

20. Ministers may wish to approve the recommendations of the Oil Committee:-

- (a) for the granting to B.I.P.M. (Shell) of a Production Licence in respect of Area "A" Block I and of an Exploration Licence in respect of Area "B";
- (b) for the granting to Home Oil Co. of Canada of a Production Licence in respect of the reduced area of Block II enclosing the area K B C H as shown on the annexed map;
- (c) for the granting to S.N.P. Aquitaine of a Production Licence in respect of the reduced area of Block II enclosing the polygon H C D E F, and of an Exploration Licence in respect of the reduced area of Area "B" enclosing the area I H F L M X, - as shown in the annexed map - or for an adjusted area in the light of the Production Licence award.

21st December, 1970.

