I was a member of the generation in Britain that came to maturity in the 1960s. Many of us were less concerned with the pleasures of ‘the swinging sixties’ than with what appeared to be a steady and irreversible decline in our country’s economic and industrial fortunes. We felt that – unless ‘something unforeseen’ turned up – the country lacked an escape route from a future offering more of the depressing same. Many decided to emigrate. This was the era of the ‘ten pound pom’ when a cross-section of a million mainly young people moved to Australia, while the better qualified joined the ‘brain-drain’ to the United States, then excitingly engaged in a ‘space race’ with the USSR. My own new wife and I thought of joining them, but the ‘something’ unforeseen did turn up and we decided to stay.

That ‘something’ was North Sea oil and gas. Suddenly, the United Kingdom had become the possessor of a major new energy source, one that offered the prospect of injecting a massive new source of wealth into the economy at exactly the points where it was most needed – the balance of payments, government revenue, and as a regeneration opportunity for declining regions of the country and whole industrial sectors.

It was this last point which excited me, employed as I was then by a leading producer of capital goods, itself in need of new markets. As I saw it, with its strong oil companies, powerful shipping interests, and an unrivalled history of engineering innovation, the United Kingdom would surely not only be able to satisfy the new domestic demand for offshore goods and services but also go on to take a large share of the overseas offshore markets that were sure to emerge. The British government seemed bound to recognise and encourage this process. I determined to make my career in the offshore oil and gas industry, and for the next 35 or more years that is what I did.

My dreams were not to be fully realised. To be sure, the macroeconomic benefits of North Sea oil and gas duly arrived, facilitating the restructuring of the British economy; even now, they continue to contribute very substantially to the economy. Despite again being mired in an economic crisis, Britain is no longer singled out as ‘the sick man of Europe’; after the ‘credit crunch’ crisis, others now are in much the ‘same boat’ as she is.

However, British-owned firms generally failed to emerge as leading players in the world market for offshore goods and services or even to succeed in unequivocally dominating the domestic market. Despite the fact that for many years the UK Continental Shelf represented the largest and sometimes also the most technically advanced segment of global demand for the goods and services
required for the exploitation of offshore oil and gas, few indigenous offshore service and supply businesses of truly international scale developed, leaving the United Kingdom badly placed to gain a significant share of overseas markets.

To that extent, the United Kingdom has not enjoyed the full benefit of the North Sea discoveries, notwithstanding some 25 years of government support through its Offshore Supplies Office (OSO). The task of this book is to attempt to try to explain why. To the best of my knowledge, it is not something that has been attempted for 25 years, if really at all. In other words, it has not been a matter of concern except to those directly engaged in the industry.

Perhaps it should be, and for several reasons. Firstly, it is a contribution to the history of a vital stage of the UK technical and economic development, perhaps the most important since Second World War. Secondly, it shows, from an industrial viewpoint, how the British handled the exploitation of their most significant natural resource gain of the twentieth century. Thirdly, it may assist governments and industries faced with future instances of unforeseen, specialist, and large-scale new demand to manage their reactions more effectively. Fourthly, it throws light on how governments can pursue strategic industrial objectives whilst leaving market mechanisms to function with minimal interference, something some administrations – perhaps even the British – may wish to do now or in the future.

The book does not attempt to fully document the great scale, scope, and urgency of the effort required, mainly in the decade beginning in 1965, to come to terms with the unprecedented technical challenges posed by the exploitation of North Sea oil and gas. In addition to organisations individually identified, many other government agencies, professional bodies, academic and research institutions, and indeed individual companies also contributed to their resolution.

The main focus is upon British-owned businesses; deliberately so, though perhaps British-headquartered would have been a better criterion to adopt. This would recognize that some companies (although in reality only a very small minority) develop a shareholder register in which nationals of the country of origin become a minority, largely as a result of the activities of international institutional investors. However, the operational head office usually remains in the same place along with a decision-making process still rooted in the local culture and thus subject to local pressures.

Few major countries have had as open an attitude towards foreign inward investment or the foreign takeover of established domestic businesses as the United Kingdom, where virtually everything has been permissible, save possibly foreign takeovers of the major companies in the ultimate strategic industry, defence. While foreign direct investment is almost universally welcomed in developed countries, there is often much less enthusiasm for foreign takeovers of existing businesses, particularly where these are deemed to be of strategic importance, a term which itself can be interpreted in different ways. In France,
it appears that it extends even to some consumer goods but many other countries take a more restrictive stance, confining controls to activities that affect national security. In most cases, these would include energy supply and its supporting activities where many would seek to ensure that foreign ownership did not come to predominate. Serious scope for disagreement exists on where the balance should correctly lie, making reciprocity difficult to achieve.

Foreign takeovers are usually justified (purely ideological free trade arguments apart) on the basis that they improve productivity and profitability through the introduction of new management techniques and inward technology transfer. As generalisations, there may be some truth in these assertions. However, many British companies in the energy support industry have been acquired, often before having reached maturity, because they offer opportunities for outward technology transfer as well as entry to new markets. Few attempts seem to have been made to assess the effect of foreign takeovers on the tax base (bearing in mind that most acquirers are multinationals with more opportunities for tax planning and transfer pricing than purely local firms) or on employment, particularly on how these extend to supply chains. Taking such factors into account over and above improved capital efficiency (itself primarily a benefit for the new owners), it is not obvious that foreign takeovers always increase the GNP, let alone the tax base.

Moreover, only the most extreme proponents of openness towards foreign-ownership will deny that it can sometimes bring disadvantages extending beyond the ownership of assets and income streams, though still falling short of threats to national security. For instance, major decisions relating to international investment, marketing, research, development, and design are almost always made in the country of control, usually also that of ownership. Employees who are non-nationals may also sometimes have additional obstacles to overcome to reach the most senior management positions in the controlling entity.

In the case of industries dependent on the exploitation of a non-renewable natural resource, the eventual decline of local activity is more likely to lead to the ultimate withdrawal of a foreign rather than a domestic owner, which will normally maintain its corporate functions and can seek additional overseas business without fear of intragroup conflict.

The period covered by the main chronological narrative begins with the drilling of the first well offshore the United Kingdom in 1963 and ends in 1993 the year of implementation of the European Single Market Act, which effectively ended government support for the British offshore service and supply industry. The main emphasis is on the industry’s formative years, broadly 1965–1980. In addition to the introductory and chronological narratives, industry segment and corporate case studies are presented, giving some insight into the factors driving the decisions of individual managements and to the outcomes. A postscript deals very briefly with events since 1993.

Trying to assess OSO is a thankless task as it is impossible to know what would have happened in its absence. Inevitably, an attempt must be made to
explain why the overall outcome was what it was and to suggest how British industrial performance might have been improved in the conditions then pertaining.

As far as the economic background to the period studied is concerned, the published sources employed were extensive. Official publications apart, the works of Robinson and Morgan (1976 and 1978) provided the most comprehensive coverage of the implications of the North Sea to the balance of payments. With respect to Britain’s perceived economic decline, no parallel existed, with diverse opinions offered by many different authors. Explanations ranged from the very broad, such as the inherited institutional failings postulated by Elbaum and Lazonick (1986), to the very narrow, such as the social attitudes of the upper classes suggested by Wiener (1981).

North Sea oil and gas also generated a very large literature of its own, most in paper format but Internet and recorded speech resources were also involved. Only a small proportion of the material was of more than peripheral relevance to the issues of central concern to this work. A few of the general ‘overview’ works, particularly Arnold (1978) and Harvie (1994), did provide some useful material and there were additionally a small number of publications directly dealing with government industrial support policies, namely Jenkin (1981), Cook and Surrey (1983), and Cameron (1986). Hallwood (1986 and 1990) had published material bearing specifically on offshore supply business issues from both theoretical and practical standpoints, but his scope was narrow, focusing on service companies in the Aberdeen area. An unpublished PhD thesis (Pike 1991) took a rather broader view but still suffered from having a Scottish rather than a UK-wide focus.

Overall, a publications’ review encouraged me to believe that his work would fill a gap in the North Sea literature by offering an integration of public policy concerns with ‘hands-on’ business issues, drawing in part on my own experience at a senior level both in OSO and the private sector. Nothing of this nature was identified in the literature.

Archive work was of more importance than the literature review and much of the previously unpublished content derives from the National and BP Archives and from United Kingdom Offshore Operators Association (UKOOA) records. The last had the added benefit of opening a ‘window’ to the records of bodies where UKOOA was a corporate member, such as minutes of the Oil Industry Liaison Committee (OILCO). In the first two cases, there was a ‘thirty year’ disclosure rule, but UKOOA granted access up to 1995. This obviated the need to make more than limited use of the Freedom of Information Act, a decision facilitated by the knowledge that relatively few of the files of the government department of most interest, OSO, had been preserved and that those that had seemed unrepresentative in character.

With respect to National Archive files, it was decided to try to identify the main themes that seemed to be present irrespective of the party in power. How to do this effectively presented a difficult problem given the large amount of
material available from a variety of official sources. It is most unlikely that everything of relevance was unearthed. Parliamentary debates and political party policy statements were largely, though not entirely, ignored.

Over 30 participants in events were consulted directly, the majority by face-to-face interview and/or questionnaire, although there were also telephone and e-mail enquiries. A few people also provided me with private papers, in one case specially prepared. The respondents are characterised in the text by type of position rather than individually identified. Although not a statistical sample, it is believed that the informants were reasonably representative of decision takers and managers. They included ministers, senior civil servants both within and outside OSO, entrepreneurs and executives of oil and contracting companies, with US, French, and Norwegian nationals among them. My own recollections, as a participant, have been included, as far as possible without drawing attention to their origin. This last point raises the question of how objective I have been, particularly about OSO, which I had the privilege to direct for a short but exciting period. It is a fair question but one for the reader to answer. I can only say that I have done my best to avoid an autobiographical bias and to be as accurate as I can. Nevertheless, I must ask readers to accept that recollections stretching back 40 or more years may not always be entirely correct, an observation that applies to my kind respondents as well as me. If bias and errors arise from overreliance on my personal recollection, they are likely to be concentrated in Chapter 5.

Where considered necessary for comparative purposes, monetary values are shown in both ‘money of the day’ and constant (2008) price terms, the adjustment being made by use of the Gross Domestic Product (GDP) deflator calculators developed for the £ sterling by L. H. Officer and for the US $ by S. H. Williamson. I must thank the originators for their agreement to this. The oil price is always given in US $, whether at current or constant prices.

Finally, with reference to the book’s illustrations, I was surprised to discover that even reputable image suppliers such as those I have used cannot always be absolutely certain that they are the copyright holders of a particular image. In such cases, I have made an effort to identify possible alternative copyright holders. However, if I have nonetheless been guilty of any inadvertent infringement, I can only apologise and invite the copyright holders to contact me.

Norman J. Smith
November, 2010