

PREM 19/1017

Future Offshore Petroleum Licensing.

The 7th Licensing Round.

The 8th Licensing Round.

ENERGY

PART 1

July 1979

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
		10.12.80					
23.7.79		5.2.81		<p style="font-size: 2em; text-align: center;">PREM 19/10/17</p> <div style="border: 2px solid red; padding: 10px; text-align: center; margin: 20px auto; width: fit-content;"> <p style="color: red; font-weight: bold; margin: 0;">MATERIAL USED BY OFFICIAL HISTORIAN</p> <p style="color: red; font-weight: bold; margin: 0;">DO NOT DESTROY</p> </div>			
26.7.79		9.3.81					
27.7.79		12.6.81					
		19.6.81					
3.8.79		27.81					
22.10.79		5.11.81					
23.10.79		2.10.81					
23.10.79		18.3.82					
23.10.79		25.3.82					
15.1.80		7.4.82					
23.1.80		20.4.82					
13.2.80		20.4.82					
22.2.80		20.4.82					
10.3.80		17.5.82					
12.3.80		17.5.82					
19.3.80		16.9.82					
31.3.80		9.2.83					
3.4.80		28.4.83					
17.4.80		15.9.83					
24.4.80							
28.4.80							
28.4.80							
29.4.80							
29.4.80							
29.4.80							

— PART ENDS —

X

● PART 1 ends:-

Adamsan to Ecclestone 15.9.83

PART 2 begins:-

E(A) (84) 11.1.84



Norman J. Adamson CB QC

Confidential

Lord Advocate's Chambers
Fielden House
10 Great College Street
London SW1P 3SL

Telephone: Direct Line 01-212 8972
Switchboard 01-212 7676

15th September, 1983

B.J. Ecclestone, Esq.,
Department of Energy,
Legal Advisers,
Thames House South,
Millbank,
London S.W.1.

NBPM

MO. 16/9

Assignment of Petroleum Production
Licences

I received yesterday from the Private Secretary to your Secretary of State a copy of Oates' letter of 9 September to you (which was not copied to us) giving the reasons for the Attorney General's view set out in the annex to your Secretary of State's minute sent to the Prime Minister on that date. I have also seen the Chancellor of the Exchequer's minute of 12 September to the Prime Minister.

↳ About RP/Favher?

The Lord Advocate is out of the country but, having regard inter alia to the fact that many of these licences are subject to Scots Law, I have taken the views of the Solicitor General for Scotland.

The Solicitor General broadly agrees with the views expressed by the Attorney General, although he is inclined to take seriously the possibility that the courts might consider tax considerations as extraneous matter in relation to the exercise of the Secretary of State's discretion whether or not to consent to the assignment of a licence.

In the circumstances, the Solicitor General strongly agrees with the course which has now been adopted of announcing the intention to amend the tax laws so that future assignments will not result in the considerable tax losses which might ensue under the present rules.

Contd

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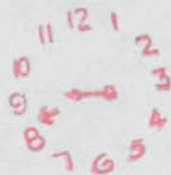
I am copying this letter to Oates, Hosker and
Cunningham, and to the Private Secretaries to the Prime
Minister and the Chancellor of the Exchequer.

N.J. ADAMSON

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Energy
Future of Offshore
Nuclear Licensing
July 1979

11 - 108



01-405 7641 Ext. 3417

Communications on this subject should
be addressed to
THE LEGAL SECRETARY
ATTORNEY GENERAL'S CHAMBERS

ATTORNEY GENERAL'S CHAMBERS,
LAW OFFICERS' DEPARTMENT,
ROYAL COURTS OF JUSTICE,
LONDON, W.C.2.

9 September 1983

B J Ecclestone Esq
Department of Energy
Legal Advisers
Thames House South
Millbank
London SE1

Dear Ecclestone,

PETROLEUM PRODUCTION LICENCES: ASSIGNMENT

Thank you for your letter to Henry Steel of 8 September ^{will request is required.} which the Attorney General considered as soon as it was received yesterday evening. The short point you raise is whether in exercising his discretion provided for in model clause 38(1) of petroleum production licences to grant his consent to the assignment of a licence your Secretary of State may take into account the tax implications.

This point is open to conflicting legal argument. The Attorney General recognises that if your Secretary of State were to refuse consent on the basis of the tax implications the applicant could and might well take proceedings in Court against him for the improper exercise of that discretion. In the Attorney General's view, in defending the Secretary of State's action in Court HMG would have not only a respectable argument but also a good case which on balance should succeed.

On the face of the statutory provision (which is incorporated as a clause of the licence) there is no fetter on the exercise of the discretion. The clause does not limit the grounds on which consent may be withheld. No doubt the classic principles enunciated in Wednesbury Corporation -v- Minister of Housing and Local Government [1965] 1 WLR 261 would be applied by the Courts to the exercise of the discretion. Thus the notion of reasonableness is imported insofar as the Secretary of State must not be perverse and reach a decision which no reasonable Secretary of State could reach. More importantly in coming to a decision he must not take into account extraneous matter. The Attorney General is not convinced from the legislative history and structure of petroleum production licences that the Courts would regard HMG's interest in the total revenue it will receive, including tax, as extraneous or irrelevant to the Secretary of State's decision. Amongst the factors the

7641 Ext.
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ATTORNEY GENERAL'S CHAMBERS

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LAW OFFICERS' DEPARTMENT,
ROYAL COURTS OF JUSTICE,
LONDON, W.C.2.

-2-

Attorney General envisages the Secretary of State can take into account both in deciding whether to grant and whether to assign a licence is the revenue the expected grantee or assignee will be expected to provide to the Exchequer.

You also refer to the proposed sale of shares in BP by the Treasury. It is necessary for your Secretary of State to decide what policy to adopt in relation to the grant of consent before the shares are offered to the public. The Attorney General agrees that a reference to HMG's attitude to the grant of consent should be included in the prospectus especially if the decision is that your Secretary of State will take the revenue implications into account. In this event the offer for sale documents should include reference to that fact.

I am copying this letter to Gerald Hosker.

Yours sincerely
Laurence Oates

LAURENCE OATES

CONFIDENTIAL

1921

1 - 100

100 - 1



See NO 2

Prime Minister

To note

 WJ
 28/4

PRIME MINISTER

EIGHTH ROUND OF OFFSHORE LICENSING

On 17 February, I announced the award of seven Eighth Round blocks by auction, for a total of over £32 million. I am now ready to complete the Round by dealing with the far more numerous discretionary blocks. I am minded to offer a further 63 licences, as set out in the annex to this minute, making 70 awards in all.

These awards will promote exploration for gas in the southern North Sea, building on the interest reawakened by the Oil and Gas (Enterprise) Act. Much of the drilling will be aimed at deeper prospects than have previously been tested in this area. The Round will also open up four new areas for exploration - the East Shetlands Platform, the West Orkneys Basin, the Forth Approaches and the mid North Sea High.

Overall, therefore, the Round has been a success even though I will not be able to licence the proposed maximum of 85 blocks, largely because the oil companies' interest in the new areas was more limited than I had hoped. In one of these areas, the highly speculative mid North Sea High, a consortium led by the American company, Murphy Petroleum, and including two small British companies, is to get sixteen blocks, a substantially larger award than is usual but for which they were the only applicants.

42 of the 46 British companies which applied for licences will receive at least one award, 9 of them as operators in 21 blocks. The British share of the awards is 42 per cent overall, reflecting the restrained interest of the smaller companies. The other countries represented among the awards will be the United States, the Netherlands, Canada, France, Ireland, Belgium, Norway, Kuwait, Australia and Italy.

Policy towards involvement by the British Gas Corporation was set out in a Parliamentary Answer last June: the Corporation should confine itself to areas where gas was likely to be found and would be required to dispose of any



oil discoveries it might make. In fact, they applied in a consortium led by Mobil for a substantial number of blocks. I propose to offer them four, three in the established gas province of the Southern Basin and one on its edge, for which their bid was strong technically with little or no effective competition.

A number of the blocks to be awarded have fishing, defence, shipping or environmental sensitivities which have been drawn to the attention of the prospective licensees. They have given undertakings, where appropriate, to consult interested parties before and during operations and to establish suitable oil spill contingency arrangements.

I have it in mind to announce the awards on 10 May by written Answer.

I am copying this minute to members of E Committee, the Secretaries of State for Scotland and Wales and to Sir Robert Armstrong.

NR

Secretary of State for Energy

28th April 1983

EIGHTH ROUND: CONDITIONAL^{*} AWARDS FOR BLOCKS LISTED IN
SCHEDULE I TO THE GAZETTE NOTICE (DISCRETIONARY BLOCKS)

<u>BLOCK</u>	<u>GROUP</u>
8/15	UNOCAL EXPLORATION & PRODUCTION COMPANY (U.K.) LTD ULTRAMAR EXPLORATION LTD THE NORWEGIAN OIL COMPANY D.N.O. (U.K.) LTD <u>PROPOSED OPERATOR: UNOCAL EXPLORATION & PRODUCTION COMPANY (U.K.) LTD</u>
8/30	SOVEREIGN OIL & GAS PLC KERR-McGEE OIL (U.K.) LTD THE BRITISH ELECTRIC TRACTION COMPANY PLC PLASCOM LTD BRICOMIN EXPLORATION COMPANY LTD <u>PROPOSED OPERATOR: SOVEREIGN OIL & GAS PLC</u>
14/2	SHELL U.K. LTD ESSO EXPLORATION AND PRODUCTION UK LTD <u>PROPOSED OPERATOR: SHELL U.K. LTD</u>
14/3	SHELL U.K. LTD ESSO EXPLORATION AND PRODUCTION UK LTD <u>PROPOSED OPERATOR: SHELL U.K. LTD</u>
14/6	BP PETROLEUM DEVELOPMENT LTD CHEVRON PETROLEUM COMPANY LTD CLYDE PETROLEUM PLC <u>PROPOSED OPERATOR: BP PETROLEUM DEVELOPMENT LTD</u>
14/7	SHELL U.K. LTD ESSO EXPLORATION AND PRODUCTION UK LTD <u>PROPOSED OPERATOR: SHELL U.K. LTD</u>
14/8	ELF UK LTD MURPHY PETROLEUM LTD OCEAN EXPLORATION CO LTD HOWARD DORIS EXPLORATION LTD PETROLEX PLC VIVA PETROLEUM LTD BERKELEY EXPLORATION & PRODUCTION PLC <u>PROPOSED OPERATOR: ELF UK LTD</u>
15/3	MARATHON OIL U.K., LTD CLYDE PETROLEUM PLC PREMIER CONSOLIDATED OILFIELDS PLC LOCHIEL OIL & GAS LTD NORTH SEA OIL COMPANY LTD <u>PROPOSED OPERATOR: MARATHON OIL U.K., LTD</u>

<u>BLOCK</u>	<u>GROUP</u>
26/2	PHILLIPS PETROLEUM COMPANY UNITED KINGDOM LTD FINA EXPLORATION LTD CENTURY POWER AND LIGHT LTD <u>PROPOSED OPERATOR:</u> PHILLIPS PETROLEUM COMPANY UNITED KINGDOM LTD
26/7	BP PETROLEUM DEVELOPMENT LTD <u>PROPOSED OPERATOR:</u> BP PETROLEUM DEVELOPMENT LTD
26/10	TRICENTROL EXPLORATION UK LTD UNOCAL EXPLORATION & PRODUCTION COMPANY (U.K.) LTD BOW VALLEY EXPLORATION (U.K.) LTD TOTAL OIL MARINE PLC LOCHIEL OIL & GAS LTD <u>PROPOSED OPERATOR:</u> TRICENTROL EXPLORATION UK LTD
26/12	CLUFF OIL PLC CLUFF ATLANTIC PETROLEUM LTD CLUFF OIL AUSTRALIA (U.K.) LTD <u>PROPOSED OPERATOR:</u> CLUFF OIL PLC
26/14	TRICENTROL EXPLORATION UK LTD UNOCAL EXPLORATION & PRODUCTION COMPANY (U.K.) LTD BOW VALLEY EXPLORATION (U.K.) LTD TOTAL OIL MARINE PLC LOCHIEL OIL & GAS LTD <u>PROPOSED OPERATOR:</u> TRICENTROL EXPLORATION UK LTD
36/20	ARPET PETROLEUM LTD <u>PROPOSED OPERATOR:</u> ARPET PETROLEUM LTD
37/6-15,19,20 38/6, 7,11,16	MURPHY PETROLEUM LTD OCEAN EXPLORATION CO. LTD PREMIER CONSOLIDATED OILFIELDS PLC VIVA PETROLEUM LTD <u>PROPOSED OPERATOR:</u> MURPHY PETROLEUM LTD
37/24	ARPET PETROLEUM LTD <u>PROPOSED OPERATOR:</u> ARPET PETROLEUM LTD
38/4b	AMERADA EXPLORATION LTD UNION JACK OIL COMPANY LTD RANGER OIL (U.K.) LTD CHARTERHALL OIL LTD ANVIL PETROLEUM VENTURES LTD BULA EXPLORATION LTD <u>PROPOSED OPERATOR:</u> AMERADA PETROLEUM CORPORATION OF THE UNITED KINGDOM LTD

C O N F I D E N T I A L

<u>BLOCK</u>	<u>GROUP</u>
38/5b	AMERADA EXPLORATION LTD UNION JACK OIL COMPANY LTD RANGER OIL (U.K.) LTD CHARTERHALL OIL LTD ANVIL PETROLEUM VENTURES LTD BULA EXPLORATION LTD <u>PROPOSED OPERATOR:</u> AMERADA PETROLEUM CORPORATION OF THE UNITED KINGDOM LTD
38/21	AMERADA EXPLORATION LTD UNION JACK OIL COMPANY LTD RANGER OIL (U.K.) LTD CHARTERHALL OIL LTD ANVIL PETROLEUM VENTURES LTD BULA EXPLORATION LTD <u>PROPOSED OPERATOR:</u> AMERADA PETROLEUM CORPORATION OF THE UNITED KINGDOM LTD
38/24	AMOCO U.K. PETROLEUM LTD ICI PETROLEUM LTD TRAFALGAR HOUSE OIL AND GAS LTD <u>PROPOSED OPERATOR:</u> AMOCO (U.K.) EXPLORATION COMPANY
38/26	AMERADA EXPLORATION LTD UNION JACK OIL COMPANY LTD RANGER OIL (U.K.) LTD CHARTERHALL OIL LTD ANVIL PETROLEUM VENTURES LTD BULA EXPLORATION LTD <u>PROPOSED OPERATOR:</u> AMERADA PETROLEUM CORPORATION OF THE UNITED KINGDOM LTD
38/27	BRITISH GAS CORPORATION MOBIL NORTH SEA LTD INDUSTRIAL SCOTLAND ENERGY PLC COALITE GROUP PLC <u>PROPOSED OPERATOR:</u> GAS COUNCIL (EXPLORATION) LTD or MOBIL NORTH SEA LTD
38/29	AMOCO U.K. PETROLEUM LTD ICI PETROLEUM LTD TRAFALGAR HOUSE OIL AND GAS LTD <u>PROPOSED OPERATOR:</u> AMOCO (U.K.) EXPLORATION COMPANY
43/12	LASMO NORTH SEA LTD OCCIDENTAL PETROLEUM (CALEDONIA) LTD THOMSON NORTH SEA LTD <u>PROPOSED OPERATOR:</u> LASMO NORTH SEA LTD

C O N F I D E N T I A L

<u>BLOCK</u>	<u>GROUP</u>
43/13b	LASMO NORTH SEA LTD OCCIDENTAL PETROLEUM (CALEDONIA) LTD THOMSON NORTH SEA LTD <u>PROPOSED OPERATOR: LASMO NORTH SEA LTD</u>
43/25	BRITISH GAS CORPORATION MOBIL NORTH SEA LTD INDUSTRIAL SCOTLAND ENERGY PLC COALITE GROUP PLC <u>PROPOSED OPERATOR: GAS COUNCIL (EXPLORATION) LTD</u> or MOBIL NORTH SEA LTD
44/21	BP PETROLEUM DEVELOPMENT LTD NORSK HYDRO OIL & GAS LTD <u>PROPOSED OPERATOR: BP PETROLEUM DEVELOPMENT LTD</u>
44/22	CONOCO (U.K.) LTD BRITOL PLC TRICENTROL EXPLORATION UK LTD SAXON OIL PLC <u>PROPOSED OPERATOR: CONOCO (U.K.) LTD</u>
44/23	TEXAS GAS EXPLORATION (U.K.) CORPORATION RACAL OIL AND GAS LTD TRAFALGAR HOUSE OIL AND GAS LTD POGO BRITISH ISLES INC. CALEDONIAN OFFSHORE PLC SOUTHWEST CONSOLIDATED RESOURCES PLC COCKRELL OIL (U.K.) CORPORATION <u>PROPOSED OPERATOR: TEXAS GAS EXPLORATION (U.K.)</u> CORPORATION
44/28	SHELL U.K. LTD ESSO EXPLORATION AND PRODUCTION UK LTD <u>PROPOSED OPERATOR: SHELL U.K. LTD</u>
44/29	CHARTERHOUSE OIL AND GAS LTD SANTA FE MINERALS (U.K.) INC. TRANSWORLD PETROLEUM (U.K.) LTD SEARS EXPLORATION AND DEVELOPMENT LTD TEXAS EASTERN NORTH SEA INC <u>PROPOSED OPERATOR: CHARTERHOUSE OIL AND GAS LTD</u>
44/30 and 49/5	ULTRAMAR EXPLORATION LTD MURPHY PETROLEUM LTD OCEAN EXPLORATION CO. LTD DAWSEA PLC BERKELEY EXPLORATION & PRODUCTION PLC VIVA PETROLEUM LTD MORAY PETROLEUM HOLDINGS AND DEVELOPMENT LTD <u>PROPOSED OPERATOR: ULTRAMAR EXPLORATION LTD</u>

C O N F I D E N T I A L

<u>BLOCK</u>	<u>GROUP</u>
48/2	AMOCO U.K. PETROLEUM LTD ICI PETROLEUM LTD JUBILEE OIL COMPANY LTD <u>PROPOSED OPERATOR: AMOCO (U.K.) EXPLORATION COMPANY</u>
48/3	AMERADA EXPLORATION LTD UNION JACK OIL COMPANY LTD RANGER OIL (U.K.) LTD CHARTERHALL OIL LTD ANVIL PETROLEUM VENTURES LTD BULA EXPLORATION LTD <u>PROPOSED OPERATOR: AMERADA PETROLEUM CORPORATION OF THE UNITED KINGDOM LTD</u>
48/8c	AMERADA EXPLORATION LTD UNION JACK OIL COMPANY LTD RANGER OIL (U.K.) LTD CHARTERHALL OIL LTD ANVIL PETROLEUM VENTURES LTD BULA EXPLORATION LTD <u>PROPOSED OPERATOR: AMERADA PETROLEUM CORPORATION OF THE UNITED KINGDOM LTD</u>
48/9	TEXACO LTD CHEVRON PETROLEUM COMPANY LTD NORWICH UNION (HYDROCARBONS) LTD A.B. EXPLORATION LTD <u>PROPOSED OPERATOR: TEXACO LTD</u>
48/11b	CONOCO (U.K.) LTD BRITOIL PLC TRICENTROL EXPLORATION UK LTD SAXON OIL PLC <u>PROPOSED OPERATOR: CONOCO (U.K.) LTD</u>
48/12b	BRITISH GAS CORPORATION MOBIL NORTH SEA LTD INDUSTRIAL SCOTLAND ENERGY PLC COALITE GROUP PLC <u>PROPOSED OPERATOR: GAS COUNCIL (EXPLORATION) LTD or MOBIL NORTH SEA LTD</u>
48/16	PHILLIPS PETROLEUM COMPANY UNITED KINGDOM LTD CANADIAN PACIFIC OIL AND GAS OF CANADA LTD CENTURY POWER AND LIGHT LTD AGIP (U.K.) LTD UNION TEXAS PETROLEUM LTD <u>PROPOSED OPERATOR: PHILLIPS PETROLEUM COMPANY UNITED KINGDOM LTD</u>
48/17b	BRITISH GAS CORPORATION MOBIL NORTH SEA LTD INDUSTRIAL SCOTLAND ENERGY PLC COALITE GROUP PLC <u>PROPOSED OPERATOR: GAS COUNCIL (EXPLORATION) LTD or MOBIL NORTH SEA LTD</u>

<u>BLOCK</u>	<u>GROUP</u>
48/18c	ARPET PETROLEUM LTD GOAL PETROLEUM PLC SANTOP LTD <u>PROPOSED OPERATOR: ARPET PETROLEUM LTD</u>
48/19c	SHELL U.K. LTD ESSO EXPLORATION AND PRODUCTION UK LTD <u>PROPOSED OPERATOR: SHELL U.K. LTD</u>
48/22	HADSON PETROLEUM INTERNATIONAL PLC <u>PROPOSED OPERATOR: HADSON PETROLEUM INTERNATIONAL PLC</u>
48/23	ARPET PETROLEUM LTD GOAL PETROLEUM PLC SANTOP LTD <u>PROPOSED OPERATOR: ARPET PETROLEUM LTD</u>
49/4	BP PETROLEUM DEVELOPMENT LTD CLYDE PETROLEUM PLC NORSK HYDRO OIL & GAS LTD <u>PROPOSED OPERATOR: BP PETROLEUM DEVELOPMENT LTD</u>
49/13	SHELL U.K. LTD ESSO EXPLORATION AND PRODUCTION UK LTD <u>PROPOSED OPERATOR: SHELL U.K. LTD</u>
49/20b and 49/25b	TOTAL OIL MARINE PLC ELF UK LTD PETROLEX PLC PICT PETROLEUM PLC R.T.Z. OIL AND GAS LTD <u>PROPOSED OPERATOR: TOTAL OIL MARINE PLC</u>
202/19	SHELL U.K. LTD <u>PROPOSED OPERATOR: SHELL U.K. LTD</u>

* In accordance with the published terms of the Round, awards are conditional on the prospective licensees:-

- (i) confirming their acceptance of a work programme previously discussed with the Department; and
- (ii) agreeing to give BNOC the option to take at market value up to 51% of any petroleum (other than natural gas) produced from the licensed area.

DEPARTMENT OF

ENERGY

Thames House South, Millbank, London SW1P 4QJ.
Press Office Direct Line: 01-211 4545 Out of hours: 01-215 7877

PRESS NOTICE

Reference No 22

February 17, 1983

EIGHTH ROUND CASH TENDER AWARDS RAISE £32 $\frac{3}{4}$ MILLION

- MR HAMISH GRAY

The Government will licence seven of the North Sea blocks offered for cash tender in the Eighth Round of offshore petroleum production licensing.

The successful bids for these blocks have raised £32 $\frac{3}{4}$ million. The highest bid was over £10 million.

This was announced today by the Rt. Hon. Hamish Gray, Minister of State for Energy, in answer to a Parliamentary Question from Mr Peter Lloyd MP, (Fareham).

Mr Gray said:

"I am pleased to report good progress with the Round.

"I intend to licence seven of the blocks offered for cash tender. The successful bids for these blocks have raised a total of £32 $\frac{3}{4}$ million. The highest bid was over £10 million for block 21/15b from a group led by Amerada Exploration Ltd.

"I have today placed details of the awards in the Libraries of both Houses.

"This brings the cash tender part of the Round to a satisfactory conclusion.

"Assessment continues of applications for the remaining blocks - those in the Southern Basin and in previously undrilled areas which are to be licensed on the basis of the usual criteria. Interviews with applicants are already in progress."

A list of successful tender and their bids is attached.

BACKGROUND NOTES

1. The offshore production licences are issued under the Petroleum (Production) Act 1934, as extended by the Continental Shelf Act 1934, and the Petroleum (Production) Regulations 1982 made thereunder.
2. Details of the Eighth Round were set out in the Gazette Notices of 24 September, 1982 and were described in Press Notice No.140 of 23 September, 1982. The Round closed on 17 January, 1983. An alphabetical list of companies applying was published on 19 January, 1983, in Press Notice No.7.
3. Cash tender bids were invited for 15 blocks in the mature oil province of the central North Sea. Eight were applied for and the Secretary of State has decided to licence seven of these.
4. In addition to their bids, successful tenderers are required to pay the standard initial payment for the blocks at a rate of £300 per square kilometre. These standard initial payments for the seven blocks total £286,200.
5. These blocks offered for cash tender were all included in the Seventh Round but were not applied for.

EIGHTH ROUND: LICENCE AWARDS FOR
BLOCKS IN TENDER AREA

BLOCK NO	GROUP	AMOUNT BID £
15/25b	CONOCO (U.K.) LTD TRICENTROL EXPLORATION UK LTD SAXON OIL PLC HISPANOIL (U.K.) LTD ELF UK LTD PROPOSED OPERATOR: CONOCO (U.K.) LTD	5,700,260
16/1	BP PETROLEUM DEVELOPMENT LTD PROPOSED OPERATOR: BP PETROLEUM DEVELOPMENT LTD	7,200,000
16/2b	FINA EXPLORATION LTD ARPET PETROLEUM LTD PROPOSED OPERATOR: AMERICAN PETROFINA EXPLORATION COMPANY	3,151,000
21/15b	AMERADA EXPLORATION LTD CHARTERHALL OIL LTD BULA EXPLORATION LTD PROPOSED OPERATOR: AMERADA PETROLEUM CORPORATION OF THE UNITED KINGDOM LTD	10,100,010
21/20b	SHELL U.K. LTD ESSO EXPLORATION AND PRODUCTION UK LTD PROPOSED OPERATOR: SHELL U.K. LTD	2,000,330
28/4b	CONOCO (U.K.) LTD TRICENTROL EXPLORATION UK LTD SAXON OIL PLC HISPANOIL (U.K.) LTD ULTRAMAR EXPLORATION LTD PROPOSED OPERATOR: CONOCO (U.K.) LTD	2,600,260
29/4b	ARPET PETROLEUM LTD ESSO EXPLORATION AND PRODUCTION UK LTD SHELL U.K. LTD NORSK HYDRO OIL & GAS LTD CHEMICAL & ALLIED TRUST LTD PROPOSED OPERATOR: ARPET PETROLEUM LTD	2,000,200
TOTAL		32,752,060

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SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
01-211 6402

cc JV
Prime Minister (2)

To note

MCS 9/2

Michael Scholar Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

9 February 1983

Dear Michael,

EIGHTH ROUND OF OFFSHORE LICENSING

The application period for the Eighth Round of offshore licensing, discussed in 'E' Committee on 22 April 1982, closed on 17 January. The Round has two parts. 15 blocks in the central North Sea were offered for closed tender bidding; the remainder of the blocks, lying in the Southern Gas Basin and previously undrilled areas, were offered for licensing on the basis of the usual criteria.

There were 20 applications for 8 of the 15 'tender' blocks. My Secretary of State has decided to accept the highest tenders for 7 of them. The tenderers concerned are technically and financially acceptable and their bids are in the range £2m. to £10m. A total of over £32m will be raised.

Mr Lawson has decided to reject the only tender for the 8th block-£103,107 from a group comprising Britoil, Kerr McGee, Deminex and Hunt. This is out of line with the other highest bids and could be seen as being derisory. There was a bid of £2m for a block in close proximity. There must, therefore, be a possibility that the block for which the Britoil group applied will be upgraded eventually and attract a higher premium in some future round.

Mr Lawson has written to the 7 successful tenderers who are all expected to send their formal acceptances in accordance with the Gazette Notice on or before 14 February. He proposes, therefore, to announce the awards, as attached, on 17 February by means of a written Answer.

The analysis of applications for blocks in the other part of the Round is proceeding, with a view to completing these awards in April.

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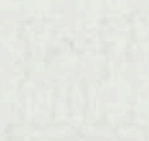
I am copying this letter to the private secretaries to members of 'E' Committee and to Richard Hatfield.

Yours ever,

A handwritten signature in black ink, appearing to be 'J D West', with a long horizontal flourish extending to the right.

J D WEST
Private Secretary

conqueror



Energy
July 1991
8th Licensing Round



FOR INFO



COMPLIANCE

1991

EIGHTH ROUND: LICENCE AWARDS FOR
BLOCKS IN TENDER AREA

BLOCK NO	GROUP	AMOUNT BID £
15/25b	CONOCO (U.K.) LTD TRICENTROL EXPLORATION UK LTD SAXON OIL PLC HISPANOIL (U.K.) LTD ELF UK LTD PROPOSED OPERATOR: CONOCO (U.K.) LTD	5,700,260
16/1	BP PETROLEUM DEVELOPMENT LTD PROPOSED OPERATOR: BP PETROLEUM DEVELOPMENT LTD	7,200,000
16/2b	FINA EXPLORATION LTD ARPET PETROLEUM LTD PROPOSED OPERATOR: AMERICAN PETROFINA EXPLORATION COMPANY	3,151,000
21/15b	AMERADA EXPLORATION LTD CHARTERHALL OIL LTD BULA EXPLORATION LTD PROPOSED OPERATOR: AMERADA PETROLEUM CORPORATION OF THE UNITED KINGDOM LTD	10,100,010
21/20b	SHELL U.K. LTD ESSO EXPLORATION AND PRODUCTION UK LTD PROPOSED OPERATOR: SHELL U.K. LTD	2,000,330
28/4b	CONOCO (U.K) LTD TRICENTROL EXPLORATION UK LTD SAXON OIL PLC HISPANOIL (U.K) LTD ULTRAMAR EXPLORATION LTD PROPOSED OPERATOR: CONOCO (U.K.) LTD	2,600,260
29/4b	ARPET PETROLEUM LTD ESSO EXPLORATION AND PRODUCTION UK LTD SHELL U.K. LTD NORSK HYDRO OIL & GAS LTD CHEMICAL & ALLIED TRUST LTD PROPOSED OPERATOR: ARPET PETROLEUM LTD	2,000,200
	TOTAL	<u>32,752,060</u>

Energy J. of JV



Prime Minister (2)

To note.

ms

MS 17/9

Prime Minister

Following the agreed preliminary announcement on 17 May of my proposals for an Eighth Round of offshore licensing, discussions were held with interested parties including other Government Departments, the fishing industry, the oil industry and environmental interests.

Their views were considered carefully and, where practicable, they have been accommodated; mainly by adjusting the selection of blocks to be offered.

The overall spread and balance of the Round have been preserved; a total of 184 blocks will be on offer, distributed as follows:

<u>Cash Tender</u>		
	Central North Sea	<u>15</u>
<u>Gas Province</u>		
	Southern Basin	<u>38</u>
<u>Frontier Areas</u>		
	Unst Basin	6
	Fair Isle Basin	1
	West Orkney Basin	4
	East Shetland Basin	<u>33</u>
	Forth Approaches	16
	Mid North Sea High	<u>69</u>
	Southern Sub-Basin (Bristol Channel)	2

Not all blocks are likely to attract applications and my aim is to licence up to 85 blocks.

I propose to publish the formal invitation to apply for Eighth Round licences in the London, Edinburgh and Belfast Gazettes of Friday 24 September. A Press Conference will be held on the previous day.



The closing date for applications will be 17 January 1983 and I expect to complete the award of licences for tender blocks in February and for the remainder in April.

I am copying this minute to the Lord President, to Members of 'E' Committee, to the Secretaries of State for Scotland and Wales and to Sir Robert Armstrong.

J. P. Clegg

PR Secretary of State for Energy
16 September 1982

(Approved by the Secretary of State and signed in his absence.)



Energy July 79
8th Licensing Room

The attached data for application of 10 CFR 20.101 and 20.102 to
complete the record of license application for the
reactor in 1979.

I am enclosing the license for the reactor, in license of 10 CFR 20.101
to the licensee of this for the reactor and for the reactor.

CONFIDENTIAL



MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

From the Minister

CONFIDENTIAL

Prime Minister (4)

ms 18/5

cc JV

The Rt Hon Nigel Lawson MP
Secretary of State for Energy
Thames House South
Millbank
London
SW1P 4QJ

17 May 1982

EIGHTH ROUND OF LICENSING

I am grateful to you for letting me see your minute to the Prime Minister of 11 May about the Eighth Round of offshore licensing. From this I was glad to note that you accept in principle the need for consultations with fishing organisations. I also note the implication in your minute that such consultations would be meaningful.

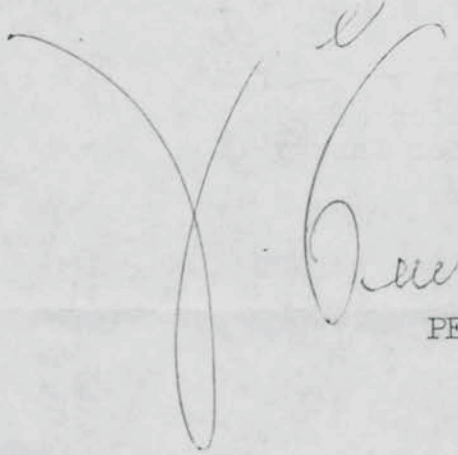
There is little doubt that the fishing industry will be disturbed at the extent of the licensing proposals now suggested and will have strong reservations about some of the blocks which constitute important fishing grounds being on offer. In the circumstances, it is essential that the voice of the fishermen's organisations is not only heard but is acted upon, perhaps through the withdrawal of some blocks, when a strong fisheries case is established. I therefore suggest that the final paragraph of the proposed announcement should be strengthened by the addition of a further sentence making it clear that an opportunity will be given to the fishermen's organisations to discuss the implications of the Eighth Round proposals for their industry.

/ I am sending ...

CONFIDENTIAL

CONFIDENTIAL

I am sending copies of this letter to the Prime Minister, the Lord President, to members of E Committee, the Secretaries of State for Scotland and Wales and to Sir Robert Armstrong.

A large, stylized handwritten signature in dark ink, consisting of a large 'P' and 'W' intertwined.

PETER WALKER

CONFIDENTIAL



MINISTER OF STATE FOR
THE ARMED FORCES
D/MIN(AF)/PB/1/5/3

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB

Telephone 01-218 2216 (Direct Dialling)
01-218 9000 (Switchboard)

Prime Minister (4)

MS 18/5

CC JV

17 May 1982

Dear Nigel,

mb

John Nott has asked me to comment on his behalf on your minute of 11th May to the Prime Minister about the proposed eighth round of offshore oil licensing. There is a direct defence interest in that potential oil activity on the UK Continental Shelf may not everywhere be compatible with essential defence usage of the sea areas concerned.

I have no objection to the general thrust of your plans for an eighth round, nor to the announcement that is proposed. But I am sure you will agree that the subsequent choice of blocks to be offered must be subject to the customary scrutiny by officials of the merits of particular blocks.

I am copying this minute to the Prime Minister, the Lord President, to E Committee members and to the Secretaries of State for Scotland and Wales.

Yours ever,
Peter.

PETER BLAKER

The Rt. Hon. Nigel Lawson, MP.

Lynn Energy

NBPM

MUS 14/5

01 211 6402

The Rt Hon George Younger TD MP
Secretary of State for Scotland
Scottish Office
Whitehall
London
SW1A 2AU

13 May 1982

Dear Secretary of State,

EIGHTH ROUND OF LICENSING

Thank you for your letter of 12 May.

I am content with the inclusion in the answer of the additional words you propose.

I am grateful to you for not pressing me to delete the Fair Isle and West Orkney Basins from the areas proposed for inclusion in the Round. My Department intends to write to the fishing organisations on Monday seeking consultations on the proposals, and we shall of course need to consider very carefully any representations they may make.

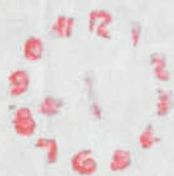
I am copying this letter to the Prime Minister, John Biffen, our colleagues on 'E' and Nicholas Edwards.

Yours sincerely
Janet Chadwick

PP NIGEL LAWSON

(Approved by the Secretary of State and
signed in his absence)

3 MAY 1982





cc J.V.

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

cc: LORD PRESIDENT
'E' COMMITTEE
S of S / Wales
PS/M of S
PS/Fletcher
PS/Mackay
PS/US of S
PS/SEPD
PS/DARS.

NBPM

MUS 14/5

CONFIDENTIAL

The Rt Hon Nigel Lawson MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
LONDON
SW1P 4QJ

12 May 1982

Her Secretary of State

EIGHTH ROUND OF LICENSING

Thank you for copying to me your minute to the PM about the proposed terms of your reply to Hugh Dyke's PQ to be answered on 17 May.

Following E Committee I asked my officials to get in touch with yours with a view to deleting the two most sensitive fishing areas (Fair Isle and West Orkney basins) from the blocks to be offered. I gather that you are reluctant to do this at least at this stage. I fear that to retain them in the terms of the answer will rebound on us but I accept that you wish - from an oil exploration point of view - to make the offer attractive. Subject to your assurance that you will take very seriously the points the fishermen make I will not press you further on this now. I should nevertheless note for the record that licensing in the more prolific fishing areas will make resisting the case for compensation for loss of access the more difficult.

I would, however, like to make one point on the terms of your answer. It seems to me that there would be strong presentational merit in making it clear that we intend to have explicit consultation with the fishermen. Could I suggest therefore that you insert "I intend to discuss my detailed proposals for licences with those involved" before the last sentence. If this were accompanied by an early letter to the major fishing organisations about the setting up of a meeting I hope that we could take some of the sting out of the fishermen's reaction.

I am copying this letter to the recipients of your minute.

Tim ...
Alfred ...

(Approved by the Secretary of State
and signed in his absence)



de v
Energy

Prime Minister ⁽²⁾

PRIME MINISTER

To note.

ms 4/5

The proposals for an Eighth Round of offshore licensing set out in E(82)32 were approved by 'E' Committee on 22nd April with two conditions. First, it was left to me to decide, in consultation with the Chancellor of the Exchequer, the timing of the announcement of the proposals. Second, I was asked to consult the Minister of Agriculture, Fisheries and Food and the Secretary of State for Scotland on the most appropriate way of taking account of the interests of the fishing industry in the Eighth Round.

I have now agreed with the Chancellor that an early announcement should be made. I had planned to make the announcement in a Written Answer to an arranged Parliamentary Question. However, Hugh Dykes has put down a Question for Oral Answer on 17 May asking when I expect "to announce a new series of licence applications for North Sea exploration". I wish, therefore, to make the announcement in my reply to him and my proposed text is attached.

On fishing interests, colleagues have drawn my attention to the general and specific sensitivities. We shall need to find a sensible course between the fishing industries' outright opposition to any further licensing and our desire to maintain the momentum of oil exploration. To that end, I envisage consultations with the fishing organisations and careful consideration of their representations about particularly sensitive blocks. I am aware that some of these blocks lie in the areas mentioned in the announcement.



- 2 -

When all consultations, including those with the Nature Conservancy Council and the oil industry, have been completed, the list of blocks has been finalised and new Regulations have been promulgated, I shall publish the formal invitation to apply as a Gazette Notice. The timing is likely to be some time in August.

I am copying this minute to the Lord President and to 'E' Committee colleagues as well as to the Secretaries of State for Scotland and Wales.

Secretary of State for Energy

11 May 1982

ANNOUNCEMENT OF THE EIGHTH ROUND

QUESTION

- *17 MR. HUGH DYKES (HARROW EAST): To ask the Secretary of State for Energy when he expects to announce a new series of licence applications for North Sea exploration.

ANSWER

I am today circulating in the Official Report proposals for a new Round of offshore licensing. The formal invitation to apply will follow in a few months' time.

OFFICIAL REPORT

The following are the proposed plans:

The main objectives are to open up areas in which exploratory drilling has not yet taken place and to provide further opportunities to explore in the established gas province.

I have in mind licensing in total about 85 blocks drawn from the following:

- i. a wide selection of blocks in the previously undrilled areas of Unst, Fair Isle and West Orkney Basins, East Shetlands Platform, Forth Approaches, Southern Sub-Basin (entrance to Bristol Channel) and the mid-North Sea High (an area between latitudes 55° and 56° North).
- ii. unlicensed blocks between $53^{\circ}10'$ North and 54° North in the Southern Basin of the North Sea; and
- iii. a small selection of blocks in the mature oil province of the central North Sea.

I shall be inviting cash tender bids for the blocks in (iii) above; all other licences in the Round will be awarded purely on the basis of assessment against published criteria. These criteria will be broadly similar to those for the Seventh Round. An undertaking along the lines of that attaching to Seventh Round licences, to allow BNOC an option to acquire up to 51% of any petroleum produced, will be required.

I expect the closing date for the Eighth Round to be towards the end of the year. In the coming weeks I shall be developing the details of the Round. I shall welcome any views or comments from interested parties on the plans I have outlined, with particular reference to areas where they believe special care and attention in the conduct of exploration and development may be needed for environmental, fishing or other reasons.

98
 87654321
 1982

The following information was received from the
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CONFIDENTIAL

P.0720

PRIME MINISTER

An Eighth Round of Offshore Licensing

E(82)32 and 33

My brief to you of 7 April sets out the background to these two papers. Discussion of them in E Committee had to be postponed, and in the intervening period the Secretary of State for Energy has had a meeting with the Chancellor of the Exchequer which resolved most of the points of difference between them. The only issue on which they did not reach agreement was the question of the timing of a preliminary announcement. The Secretary of State for Energy remains of the view that an announcement should be made as early as possible (which would now be early in May) so that the oil companies can use the 1982 summer season to the fullest possible extent for the preliminary surveys on which they will base their applications in the autumn. The Treasury, on the other hand, argues that an announcement should be delayed until after the Committee Stage of the Finance Bill (ie late June/early July) to deny the oil companies the possibility of threatening a boycott of the eighth round as a gesture of protest against the tax proposals in the Bill.

2. The other outstanding points arise on the CPRS paper, E(82)33. The first concerns the allocation of exploration blocks. The Chancellor of the Exchequer has now accepted the proposals in the Secretary of State for Energy's paper that "mature" oil blocks should be offered for auction by closed tender bidding, and that other blocks should be allocated by licence involving a sliding scale of rentals (as with the mature oil blocks) but no initial payments. The CPRS, on the other hand, argue in paragraphs 8 and 9 of their paper that the closed tender system should apply to all blocks.

3. Second, the CPRS argue in paragraphs 5-7 of their paper that a gas round should not be offered at the same time as an oil round (as the Department of Energy proposes) and that instead an announcement should be made at the same time as the oil round that a gas round will be offered later in the year. The CPRS is concerned that a gas round should be delayed until later in the summer when the report which officials are preparing on ways of controlling gas exports will be available.

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Neither the Department of Energy nor the Treasury agree with the CPRS on this; both are content that an early gas round can be allowed to go ahead independently of decisions on the control of gas exports.

4. Finally, there is one point which you yourself may wish to raise. The Secretary of State for Energy's intention is that the British Gas Corporation should be allowed to bid for gas blocks if they wish to do so. You may wish to ask whether this would be consistent with the Government's privatisation policy and the decision taken to force the BGC to sell their oil interests.

HANDLING

5. You will want to invite the Secretary of State for Energy to introduce his paper. He is likely to concentrate in his opening statement on the question of timing of an announcement. You might then invite the Chancellor of the Exchequer and Mr Sparrow to comment on the aspects of the Secretary of State's proposals with which they disagree. Finally, the Secretaries of State for Industry and Scotland and the Minister of Agriculture may have comments from the point of view of the offshore oil supply industry and the fishing industry.

CONCLUSIONS

6. You will wish to record conclusions on:-

- i. the timing of a preliminary announcement;
- ii. whether there should be any separate arrangement for the licensing of gas blocks as proposed by the CPRS;
- iii. whether the blocks should all be subject to the closed tender procedure as the CPRS propose;
- iv. whether the British Gas Corporation should be allowed to bid for gas blocks if they wish to do so.

PLG
P L GREGSON

20 April 1982



CONFIDENTIAL

P.0711

PRIME MINISTER

An Eighth Round of Offshore
Licensing

E(82)32 and 33

BACKGROUND

In E(82)32 the Secretary of State for Energy invites the Committee to agree to the announcement later this month of an eighth round of offshore licensing of oil and gas blocks. His aim is to grant licences for about 85 blocks overall in early 1983. In E(82)33 the Central Policy Review Staff support going ahead with the eighth round subject to reservations on the timing of the gas round, on the financial arrangements for allocating blocks, and on procedure for future rounds.

✓ / 2. The seventh round was announced about two years ago. On 23 June 1981 the Committee decided to defer the introduction of the eighth round (E(81)21st Meeting, Item 2). The main reason was that the Chancellor of the Exchequer wanted to delay the eighth round while consultations were still in train with the oil companies on the new tax regime in the 1982 Finance Bill; he was concerned that the major companies might attempt to put pressure on the Government while the Bill was still under consideration by a deliberately disappointing response to the eighth round.

3. The 1982 Finance Bill recognises the case for a new tax structure to provide a more secure and stable regime for future development and exploration of the North Sea. The supplementary petroleum duty will be abolished from the end of 1982; the rate of petroleum revenue tax will be increased from 70 to 75 per cent from 1 January 1983 and new arrangements introduced for the timing of payments.

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MAIN ISSUES

4. There is likely to be general agreement with the proposition for launching an eighth round this year in order to maintain the momentum of exploration required to ensure adequate oil and gas supplies in the 1990s. If that is so, the main issues which the Committee will need to consider are likely to be:

- (i) the precise timing of the announcement of the eighth round in relation to progress on the Finance Bill;
- (ii) the timing of the gas round;
- (iii) the financial arrangements for allocating blocks;
- (iv) the arrangements for future rounds.

✓ The Department of Energy see no difficulty in meeting the points made by the Minister of Agriculture, Fisheries and Food, in his minute to you of 25 March, on the need to continue to take account of the interests of fishermen when developing the offshore oil industry.

Timing

5. Now that the Finance Bill has been published the Secretary of State for Energy is anxious to get ahead with the eighth round. He would like an early announcement to enable the companies to make use of the 1982 summer season for the preliminary surveys on which they will base their applications in the autumn. From soundings of the industry he judges that the companies will not be unduly deterred by the immediate prospects for oil prices.

6. You will wish to consider whether an announcement now would give the companies an opportunity to back their criticism of the Finance Bill provisions by threatening between April and July not to take up licences. I understand that the Chancellor of the Exchequer will

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probably agree to the announcement being made in April, rather than in late July when the Finance Bill is enacted, provided that the Secretary of State for Energy can assure him, on the basis of further soundings of the oil companies, that it is unlikely that the industry will try to threaten a boycott of the eighth round as a gesture of protest against the tax proposals.

The Gas Round

7. The CPRS argue, in paragraphs 5-7 of E(82)33, that assuming the oil round is announced this month it should be said that a gas round will be offered later in the year. They are worried that if the gas round was offered now there could be awkward questions on what were the Government's intentions on gas exports to Europe in advance of the report during the summer by officials on ways of controlling gas exports.

8. The Department of Energy and the Treasury do not agree with the CPRS on this. The Secretary of State for Energy has said publicly that there will not be gas exports while there is unsatisfied United Kingdom demand for gas but that he will reconsider this at such time as UK demand is met. It is unlikely that for the time being any clearer signal can be given to interested companies.

9. The Committee should be aware of the Secretary of State's intention that the British Gas Corporation should be allowed to bid for gas blocks if they so wish. There may well be a case for this but questions could be asked on whether it is consistent with the Government's privatisation policy and the decisions taken to force BGC to sell their oil interests.

Allocation of Blocks

10. The Secretary of State for Energy proposes, in paragraph 9 of his paper, that 'mature' oil blocks should be offered for auction by closed

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tender bidding. Under this procedure the companies submit sealed bids to the Department of Energy who select primarily on the basis of the highest bids but taking into account the technical and financial standing of the companies and their proposed work programmes for exploiting the blocks. There is likely to be general support for this procedure. It will be useful in bringing in some early money and it seems clearly better than asking for a fixed price with all the attendant problems of deciding where to pitch it.

11. The Secretary of State for Energy goes on to propose that the other blocks should be allocated by licence involving a sliding scale of rentals (as with the mature oil blocks) but no initial payments. In the case of oil blocks in the 'frontier' areas he fears that companies would be deterred from applying if they had to make a down payment and that those which did apply might not necessarily be the companies best suited to exploration and exploitation (paragraph 5 of E(82)32). He proposes similar arrangements for gas blocks (his paragraphs 6-8) because he is particularly concerned to get a very good response indicating support of the new policy following the passage of the Oil and Gas (Enterprise) Bill.

12. The CPRS argue, in paragraphs 8 and 9 of E(82)33, that the closed tender system should apply to all blocks. Bids for frontier and gas blocks would no doubt be lower than those for the less risky mature oil blocks but, nevertheless, they would bring in some useful early money. The CPRS suggest that the Department of Energy would not necessarily have to take the highest bid and that they could select the most suitable company.

13. The Secretary of State for Energy may well argue that in practice it will be very difficult for him not to take the highest bid - and the level of bids will become public knowledge once the tender takes place. He might go on to say that he will be vulnerable to criticism from the PAC if he did not take the highest bid. You may wish to probe

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him on this. The sliding scale of rentals charged on a block is the same whether or not there is an initial payment. The PAC, or other critics, might well ask why the Government did not take up the chance to secure some additional money, by way of an initial payment, for these blocks. Low initial payments would be more defensible than none. The Secretary of State for Energy would be vulnerable to criticism if he decided not to take the highest bid but it would be open to him to argue that he had chosen another company on the grounds that he had reason to believe that they would more effectively exploit the block. It might be possible for him to prepare the way for this by making clear in his preliminary announcement how the procedures would operate.

Future Rounds

14. The CPRS suggest in paragraph 10 of E(82)33 that consideration should be given to allowing two summer seasons between the dates of announcement and submission of applications for future rounds.

15. The Secretary of State for Energy and the Chancellor of the Exchequer will probably not be attracted by this idea. The companies can make up their minds more quickly than this. Extending the period could complicate the interaction between licensing rounds and budget decisions in future years and give more scope to the companies to use threats of non-participation as a propaganda weapon for relaxation of the fiscal regime. The CPRS idea could, however, be considered further or borne in mind if the Committee thought it worthwhile.

HANDLING

16. After the Secretary of State for Energy has introduced his paper it might be most convenient to break-down the discussion under the headings of timing of the eighth round, the gas round, the financial arrangements, and future arrangements. Subject to any general points which they might wish to make at the beginning of the discussion, the Chancellor of the Exchequer and Mr Sparrow could comment on the


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particular issues as they arose. The Secretary of State for Industry, Mr Fletcher (representing the Secretary of State for Scotland) and the Minister of Agriculture, Fisheries and Food may have comments from the point of view of the offshore oil supply industry and the fishing industry.

CONCLUSIONS

17. In the light of the discussion you will wish to record conclusions on:-


(i) whether there should be an eighth round of offshore licensing in 1982 on the scale proposed by the Secretary of State for Energy and, if so

(ii) whether there should be a preliminary announcement in April as proposed in paragraph 11(c) of E(82)32;

(iii) whether there should be any separate arrangements for the licensing of gas blocks as proposed by the CPRS;

(iv) whether the blocks should be all subject to the closed tender procedure or whether this should apply solely to mature oil blocks with the rest simply licensed;

(v) whether in future rounds there should be two summer seasons between the dates of announcement and submission of applications.


P L GREGSON
Cabinet Office.
7 April 1982

CONFIDENTIAL



CONFIDENTIAL

cf JU

Prime Minister

(2)

Mus 5/4

[Handwritten signature]

PM/82/24

Prime Minister

Eighth Round of Offshore Licensing

- now cancelled*
1. As neither Humphrey Atkins nor I will be able to attend the meeting of E Committee on 7 April which is to consider Nigel Lawson's proposals for an Eighth Round of offshore licensing (E) (82) 32 I should like to let you know that I support the proposals.
 2. I believe that it is important to maintain the momentum of UKCS development. It is now two years since the last round was announced; our IEA and Community partners will regard a new round as confirmation that the UK remains committed to the development of what is for them a valuable and reliable source of energy. In any event, given the long lead times involved, we have to take action now to maintain supplies in the 1980s. The current weakness of the oil market should not delay the round; the companies take a longer term view of the prospects.
 3. Nigel Lawson's paper correctly identifies the need to restore the momentum of gas exploration; I am not persuaded by the arguments in the CPRS paper for delaying an offer of gas blocks. The conclusions of the Working Group on gas export policy are not relevant to our decision on the timing or content of the Eighth Round: whether or not they can come up with a Community-proof regime for exports we shall want to be seen to be giving substance to our commitment to encourage more exploration for gas. It would be inconsistent with the aims of the Oil and Gas (Enterprise) Bill not to press ahead with the licensing of gas blocks.

/4.

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CONFIDENTIAL



4. I am sending copies of this minute to the other members of E Committee and the Secretary of State for Scotland, the Lord President of the Council, the Government Chief Whip, the Secretary, CPRS and to Sir R Armstrong.

C

(CARRINGTON)

Foreign and Commonwealth Office

4 April 1982

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1950年





From the Minister

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

Prime Minister ✓ JV

Mus 25/3

Cancelled for 31/3/82 SR₂

for E folder

No need to submit initial E folder

25 March 1982 made up

CONFIDENTIAL

PRIME MINISTER

ANNOUNCEMENT OF AN EIGHTH ROUND OF OFFSHORE OIL LICENSING

As I will not be able to attend the forthcoming meeting of 'E' Committee on 31 March I am writing to let you have my views on this proposed Eighth Round. While I would not wish to object to an announcement in April, anything which adds to the difficulties of the fishing industry at this stage clearly needs the most careful thought. It is therefore essential, in my view, that any such announcement should refer sympathetically to the interests of fishermen and should include a firm commitment to maintaining the consultation and safeguard arrangements introduced under the Seventh Round.

There is an encouraging degree of cooperation developing between fishermen and the oil industry off the south coast in particular, and I am sure this is the only way forward if we are to resolve the difficult problem of reconciling the conflicting interests of these two important industries.

I am sending copies of this minute to other members of E Committee, the Secretaries of State for Scotland and Wales, and to Sir Robert Armstrong.

PETER WALKER

CONFIDENTIAL

MINISTRY OF AGRICULTURE AND FISHERIES
DEPARTMENT OF ANIMAL INDUSTRY



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Inquired
Walter



Foreign and Commonwealth Office

London SW1A 2AH

30 September 1981

From The Minister of State

Douglas Hurd CBE MP

Mus.

Dear Nigel,

Thank you for your letter to Peter Carrington in which you suggested that the way is now clear to proceed with an announcement of the remaining 7th Round licensing awards.

I entirely agree that the decision reached by Ministers on the gas gathering pipeline has removed any reason for continuing to withhold from the French companies the 7th Round licences for which they were otherwise qualified. I am content with your proposal to announce the remaining awards on 1 October and am grateful for your suggestion that briefing for our overseas posts be prepared by your officials in consultation with mine.

I am copying this letter to the Prime Minister, to Members of 'E' Committee, to the Chancellor of the Duchy, to the Secretaries of State for Scotland and Wales and to Sir Robert Armstrong.

Lawson,

Doyle.

The Rt Hon Nigel Lawson MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
LONDON SW1

CONFIDENTIAL



Energy
J. Vereker
A. Duguid
A. Walters

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
01-211-6402

Correspondence
copy

The Rt Hon Lord Carrington PC KCMG MC
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
London SW1

September 1981

John Peter

With your agreement the award of 11 licences under the Seventh Round of Offshore Licensing was delayed to put pressure on the French companies (Elf and Total) to commit their North Alwyn gas to the gas gathering pipeline (GGP). Now that the GGP is not going ahead there is no need for us to continue to withhold the remaining licences.

We did, however, deliberately avoid a direct link between the award of licences and North Alwyn gas. To preserve this position, we should allow some time to elapse between our GGP announcement and announcement of the remaining licence awards. I propose therefore to announce the remaining awards on 1st October, by means of a Press Notice and direct advice to the applicants. A list of the awards is attached.

If you are content, I suggest that briefing for Posts should be prepared by my officials in consultation with yours.

I am copying this letter to the Prime Minister, to Members of 'E' Committee, to the Chancellor of the Duchy, to the Secretaries of State for Scotland and Wales and to Sir Robert Armstrong.

John Peter
Nigel

NIGEL LAWSON

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ANNEX C
 AWARDS TO COMPLETE THE ROUND
 FOR

BLOCKGROUPS (OPERATOR UNDERLINED)South Western Approaches

73/4

BP Petroleum Development Ltd.
 Total Oil Marine Ltd.
 Elf UK Ltd
 Aquitaine UK Ltd.

English Channel

98/11

British Gas Corporation X
 EP Petroleum Development Ltd.

99/12 and 99/13

Esso Petroleum Company Ltd.
 Whitehall Petroleum Ltd.
 Premier Consolidated Oilfields Ltd.
 Venture Oil Company Ltd.

North of Shetlands

208/21

Elf UK Ltd.
 Cenoco (UK) Ltd.
 Gulf Oil Corporation
 London & Scottish Marine Oil Company Ltd.
 Barclays North Sea Ltd.

208/22

Esso Petroleum Company Ltd.
 RTZ Oil and Gas Ltd.

209/8

Marathon Oil UK Ltd.
 IMS Energy Ltd. (IME)
 LL & E (UK) Inc.
 Norwich Union (Hydrocarbons) Ltd.

214/29

Total Oil Marine Ltd.
 Tricentrol North Sea Ltd.
 Hispanoil (UK) Ltd.
 Pict Petroleum Ltd.
 Esco Exploration Ltd.

219/29

BP Petroleum Development Ltd.
 Elf UK Ltd
 Agip (UK) Ltd.

219/30

Total Oil Marine Ltd.
 Tricentrol North Sea Ltd.
 Hispanoil (UK) Ltd.
 Pict Petroleum Ltd.
 Esco Exploration Ltd.

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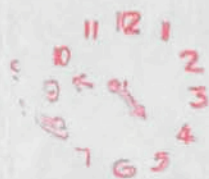
220/26

BP Petroleum Development Ltd.
Elf UK Ltd
Agip (UK) Ltd.
Enjay Holdings Ltd.

220/27

BP Petroleum Development Ltd.
Elf UK Ltd.
Agip (UK) Ltd.
Enjay Holdings Ltd.

12 5 SEP 1981



Energy

01 211 6402

12

Rt Hon Peter Walker MBE MP
Minister of Agriculture, Fisheries and
Food

2/7

Whitehall Place
London
SW1A 2HH

3 July 1981

Dear Sir

OFFSHORE LICENSING

Although 'E' Committee decided last week that we should not go ahead with an eighth round of offshore licensing at this time, your letter of 22 June raises the general issue of the impact of oil licensing on the fishing industry which warrants a response.

I can assure you that I am most conscious of the need to ensure that oil activity co-exists harmoniously with other users of the UKCS (in particular fishermen) and that interference with their interests is minimised.

I have already done much in this direction over the past 18 months:-

- (i) Together with the oil and fishing industries, my Department has developed a Code of Practice to protect the interests of fishermen in the sensitive and much-fished area of the Inner Moray Firth. My Department has indicated to your officials that we would be prepared to consider the development of a code for other specific areas where a sound need can be established.
- (ii) Representations from my Department have led the UK Offshore Operators Association, who fund the debris compensation scheme, to extend its scope and limits.
- (iii) My Department's oil spill contingency planning requirements for Seventh Round blocks close to shore involve prior consultations with fisheries inspectors on the identification of sensitive areas and the adoption by the operators of measures to ensure their protection where this is practicable.

In future licensing rounds I intend that the Seventh Round practice will be followed allowing a consultation period after the preliminary announcement which will give ample opportunity for fishing (and other) interests to make their case to me about any particularly sensitive areas.

My Department's past record indicates the seriousness with which we treat this issue, and I have no intention of relaxing my requirements in that respect.

I am copying this letter to the recipients of yours.

D A R HOWELL .

Jan
Jan

CONFIDENTIAL

Energy

PRIME MINISTERAn Eighth Round of Offshore Licensing
(E(81) 65)

BACKGROUND

The Secretary of State for Energy proposes, in E(81) 65, a "fairly small" eighth round of licensing of up to 40 blocks, described in his paragraph 9 and shown on the map attached to his paper.

2. The aim in going ahead with an early new round is to retain oil company interest, to keep up the momentum of exploration, and to rebut any notion that the Government is nervous of testing the attractiveness of the United Kingdom Continental Shelf under the new tax regime. For the reasons explained by the Secretary of State for Energy in his paragraphs 4 and 5, the blocks to be offered would be mainly in high risk and unexplored areas. Because of that, and to avoid the risk of having the round fail, he strongly recommends against demanding cash payments for the blocks. He judges that substantial revenue from cash premia should be obtainable from further licensing rounds in two or three years time.

3. If the Committee approve his proposals, the Secretary of State for Energy wishes to make a preliminary announcement in July to indicate the areas to be included in the round. Invitations for applications would be issued in the autumn with a closing date of December 1981/January 1982 and awards in the late spring of 1982.

4. The Chancellor of the Exchequer may well question the implications of these proposals for his 1982 Finance Bill which will include permanent legislation for the North Sea fiscal regime (probably the continuation of the Supplementary Petroleum Duty which, under present legislation, is due to expire in June 1982). The risk is that, under the Secretary of State for Energy's proposed timetable, the major oil companies would be well placed to engineer a disappointing response to the eighth round proposals, to blame this on the present tax regime, and so make it much harder to defend the tax

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proposals for the 1982 Budget. If there is force in these fears, there would be a case either for deferring applications in an eighth round until after the 1982 Finance Bill or for making the closing date for applications December 1981 rather than January 1982 - this would give Ministers more time to assess the response to the eighth round before taking final decisions on the future North Sea tax regime to be laid down in the 1982 Budget.

5. There is also the question of whether it is sensible to go ahead with an eighth round at all at this time. The seventh round is barely complete and the oil market is depressed. This could point to some delay even if there were no financial complications.

6. The Chancellor of the Exchequer might also question the recommendation that the eighth round should not be used to raise cash. The seventh round raised £210 million. The blocks on offer under an eighth round may well be far less attractive, but some contribution from them would be helpful in reducing public expenditure. The possibility might be considered of some form of auction or tender, rather than requiring a fixed premium as in the seventh round.

HANDLING

7. After the Secretary of State for Energy has introduced his paper you will wish to invite the Chancellor of the Exchequer to comment. Mr. Fletcher, who is representing the Secretary of State for Scotland, will wish to comment on the implications for the offshore supply industry (as will the Secretary of State for Industry) and on any problems which the choice of blocks might raise for the Scottish fishing industry; and the Secretary of State for Defence will wish to say whether the choice of blocks raises any defence problems.

8. The main questions which you will wish to cover in the discussion seem to be:-

- (i) Whether the case is made for an early further round of licensing.
- (ii) If it is, whether the proposed timing of the applications is satisfactory in relation to the 1982 Finance Bill.
- (iii) Whether an attempt should be made to raise some cash from the licensing and if so, how?

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CONCLUSIONS

9. In the light of the discussion you will wish to record conclusions on the three main questions listed above. If there is to be an early eighth round, you will wish to invite the Secretary of State for Energy to clear the details and the terms of his announcement with the Chancellor of the Exchequer and with the other Ministers with a direct interest.

RA

(Robert Armstrong)

19th June 1981

CONFIDENTIAL

CONFIDENTIAL

VBS



10 DOWNING STREET

From the Private Secretary

cc: E
 HO Energy
 FCO + Chanc/OL
 HMT
 DO1 MOD
 Labes. SO
 9 March 1981 WO
 DTEmy
 MAFF Mr Ingham
 DTTrade
 CSO, HMT
 CO

Seventh Round of Offshore Licensing

The Prime Minister has now had an opportunity to consider your Secretary of State's minute of 26 February on the above subject.

The Prime Minister understands that the FCO are content with Mr. Howell's proposals. Subject to any comments that the Treasury may have, she is content that he should make an announcement by means of a Written Parliamentary Answer on the basis proposed.

I am sending copies of this letter to the Private Secretary to members of E Committee, the Chancellor of the Duchy of Lancaster, the Secretaries of State for Defence, Scotland and Wales and to David Wright (Cabinet Office).

TPL

J.D. West, Esq.,
Department of Energy.

CONFIDENTIAL

055

PRIME MINISTER

SEVENTH ROUND OF OFFSHORE LICENSING

I minuted you and 'E' Committee colleagues on 8 December about the written first batch of awards under the Seventh Round of offshore licensing. *Answer?*
All these awards covering 42 blocks in the company nomination area, were taken up by the end of the year, bringing in revenue of £210m in initial premia.

2 The assessment of applications for blocks specifically designated by my Department has now been completed and I have reached decisions on the licence allocations to complete the Round. *R.*

3 I propose to make awards as listed in Annexes 'A' and 'B' (jointly). These awards will be conditional on the prospective licensees:

- i confirming their acceptance of a work programme previously discussed with the Department: and
- ii agreeing to give BNOG the option to take at market value up to 51% of petroleum produced.

4 I intend to licence 48 blocks, bringing the total for the Round to 90, in line with our original intentions.

5 The pattern of awards for the Round as a whole maintains the satisfactory features of the company nomination area. British companies are involved in all licence awards in both areas. Four of the smaller British companies receive operatorships in this second list of awards, bringing the number for the Round as a whole to six companies receiving ten operatorships in all. The aggregate British equity content is just under 50% with total licence interests for the British private sector amounting to over 40% as against only 6% in the Sixth Round.

I had been writing for Treasury comments before putting this in. They have yet to come. (The FEO on contract). Subject to any last-minute comments from the Treasury, contact for the Round to go ahead with his

6 A number of blocks among those designated by my Department are sensitive to fishing, defence, shipping and environmental interests and this has been drawn to the attention of licensees. They have also been made aware, where appropriate, of the operational restrictions which will apply to some blocks in order to minimise interference with existing shipping and defence use. In addition, licensees in the Inner Moray Firth will subscribe to a Code of Practice drawn up by my Department with the fishing organisations and the oil industry to ensure that offshore operations are conducted with special regard for fishing activities in the area. For blocks close to shore, licensees have agreed to prepare oil spill contingency plans and for two blocks actually abutting the shore, my Department has examined closely the companies' proposed environmental protection plans for emergency situations.

7 You will be aware from my letter of 30 January to the Foreign and Commonwealth Secretary of my proposal to use the remaining Seventh Round awards to put pressure on the French companies Elf and Total to obtain the early commitment of their North Alwyn Gas to the gas gathering pipeline. This commitment is crucial to the success of the project.

8 Subject to the final agreement of the Foreign and Commonwealth Secretary, I may find it necessary to delay the announcement of the award of all the 11 blocks in Annex 'B' (for which the French have been shortlisted) beyond the date of the initial announcement of awards. Should the French refuse to meet our wishes, I propose to scale down slightly the awards to them and the changes involved are given in Annex 'C'.

9 I am, therefore, planning at this stage to announce the 37 awards set out in Annex 'A' in the week of 9 March by means of a Written Parliamentary Answer. Dependent upon the attitude adopted by the French, I shall announce the remaining 11 awards as at Annex 'B' or 'C' at an appropriate time.



● 3

10 I am copying this minute to members of 'E' Committee, to the Chancellor of the Duchy, to the Secretaries of State for Defence, Scotland and Wales and to Sir Robert Armstrong.

D14
2



Secretary of State for Energy
26 February 1981

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CONFIDENTIAL

ANNEX A

BLOCK

GROUPS (OPERATOR UNDERLINED)

North of Shetlands

1/4

Tricentrol North Sea Ltd.
Saxon Oil Ltd.
Volvo Petroleum (UK) Ltd.

Moray Firth

11/25

Shell UK Ltd.
Esso Petroleum Company Ltd.

12/21

The British National Oil Corporation
BP Petroleum Development Ltd.
Deminex (London) Ltd.
Hunt Oil (UK) Ltd.
Kerr-McGee Oil (UK) Ltd.

12/22

Arpet Petroleum Ltd.
The Broken Hill Proprietary Company Ltd.
Gas and Oil Acreage Ltd.
Midclyde Oil and Energy Ltd.
RMC Explorations Ltd.
Aran Energy Ltd.
Santop Ltd.

12/23

Premier Consolidated Oilfields Ltd.
A. Johnson Exploration Ltd.
Neste Exploration Ltd.
New Court Oil Venturers Ltd.
United Gravel Company Ltd.
Venture Oil Company Ltd.

12/24

Occidental Petroleum (Caledonia) Ltd.
Thomson North Sea Ltd.
Grandmet Oil Ltd.
Getty Oil (Britain) Ltd.
Allied Chemical (Great Britain)Ltd.

12/27

Burmah Oil Exploration Ltd.
Charterhouse Oil and Gas Ltd.
Charter Consolidated (UK Offshore Oil
Exploration) Ltd.
Swedish Petroleum Ltd.
Canadian Industrial Gas (UK) Ltd.
DSM Hydrocarbons (UK) Ltd.
Norsk Hydro Petroleum Ltd.

12/28

Tenneco Great Britain Ltd.
Albright and Wilson Ltd.
David Brown Tractors Ltd.
GKN Exploration Ltd.
Cluff Oil Ltd.
Cluff Oil Australia (UK) Ltd.
Cluff Oil Hong Kong (UK) Ltd.
CCP North Sea Associates Ltd.
Moray Firth Exploration Ltd.
Matheson Petroleum Co. Ltd.

12/29

Kerr-McGee Oil (UK) Ltd.
Tricentrol North Sea Ltd.
Bricomin Exploration Company Ltd.
Moray Petroleum Holdings and Development Ltd.
East of Scotland Resources Ltd.
Fishermen's Petroleum Company Ltd.
Reid Marine Ltd.
Highland Participants Ltd.

Outer Moray Firth

13/11

Phillips Petroleum Company United Kingdom Ltd.
Fina Exploration Ltd.
Century Power and Light Ltd.
Oil Exploration Ltd.
Agip (UK) Ltd.

20/12

Mobil North Sea Ltd.
Flamstone Oil and Gas Ltd.
Amerada Exploration Ltd.
Texas Eastern (UK) Ltd.
Whitehall Petroleum Ltd.
Coalite Group Ltd.

20/14

Mobil North Sea Ltd.
Flamstone Oil and Gas Ltd.
Amerada Exploration Ltd.
Texas Eastern (UK) Ltd.
Whitehall Petroleum Ltd.
Coalite Group Ltd.

20/15

Shell UK Ltd.
Esso Petroleum Company Ltd.

Southern North Sea

43/26

Hamilton Brothers Oil Company (Great Britain) Ltd.
Hamilton Brothers Petroleum (UK) Ltd.
Blackfriars Oil Co. Ltd.
The Trans-European Company Ltd.
Tricentrol North Sea Ltd.

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50/16 and 50/21

British Gas Corporation

South Western Approaches

73/2

Monsanto Ltd.
THF Oil Ltd.
Amerada Exploration Ltd.
Charterhall Oil Ltd.
Kaiser Petroleum (UK) Ltd.
WL Explorations Ltd.
Swedish Petroleum Ltd.
Charterhall North Sea Oil Australia Ltd.

73/3

Gulf Oil Corporation
Charterhouse Oil and Gas Ltd.
Tricentrol North Sea Ltd.
Gas and Oil Acreage Ltd.
Sears Exploration and Development Ltd.
Berkeley Seventh Round Ltd.

73/5

Arpet Petroleum Ltd.
Santop Ltd.

73/6

Chevron Petroleum Company Ltd.
ICI Petroleum Ltd.
Natwest Resources Ltd.

73/13

Murphy Petroleum Ltd.
Ultramar Exploration Ltd.
Ocean Exploration Co. Ltd.
Viva Petroleum Ltd.

73/14 and 73/19

Murphy Petroleum Ltd.
Ultramar Exploration Ltd.
Ocean Exploration Co. Ltd.
Viva Petroleum Ltd.

86/17

Murphy Petroleum Ltd.
Ultramar Exploration Ltd.
Ocean Exploration Co. Ltd.
Viva Petroleum Ltd.

English Channel

98/17

Texaco North Sea UK Ltd.
A.B. Exploration Ltd.
Unigate Exploration Ltd.

98/18

Unocal Exploration and Production Company
(UK) Ltd.
Bristar (North Sea) Ltd.
City Oil Exploration Ltd.
Lennox Oil Company Ltd.
Pentland Oil Exploration Ltd.
TI Energy Development Ltd.
Valor Exploration Ltd.

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99/16

Texas Gas Exploration (UK) Corporation
Candecca North Sea Ltd.
Caledonian Offshore Company Ltd.
Cockrell Oil (UK) Corporation
Dolphin Petroleum Ltd.
Ocean Transport and Trading Ltd.
Pogo British Isles Inc.
Racal Exploration Ltd.

99/18

Texas Gas Exploration (UK) Corporation
Candecca North Sea Ltd.
Caledonian Offshore Company Ltd.
Cockrell Oil (UK) Corporation
Dolphin Petroleum Ltd.
Ocean Transport and Trading Ltd.
Pogo British Isles Inc.
Racal Exploration Ltd.

North of Shetlands

206/1

The British National Oil Corporation
Shell UK Ltd.

208/13

Shell UK Ltd.
The British National Oil Corporation

208/17

Amoco UK Petroleum Ltd.
British Gas Corporation

209/4

British Sun Oil Company Ltd.
Union Jack Oil Company Ltd.
Ranger Oil (UK) Ltd.
Clyde Petroleum Ltd/Clyde Petroleum
(Minerals) Ltd.
North Sea Exploitation and Research Company Ltd.
Hampton Gold Mining Areas Ltd.
Charterhall Oil Ltd.
Hautpas Ltd.

209/12

Marathon Oil UK Ltd.
LMS Energy Ltd. (LME)
LL & E (UK) Inc.
Norwich Union (Hydrocarbons) Ltd.

214/27

Gulf Oil Corporation
Jubilee Oil Company Ltd.

214/28

Esso Petroleum Company Ltd.
RTZ Oil and Gas Ltd.

219/20

Conoco (UK) Ltd.
London & Scottish Marine Oil Company Ltd.
Saxon Oil Ltd.

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219/27

Sovereign Oil and Gas Ltd.
Dow Chemical International Energy Company
Dawsea Ltd.

219/28

Sovereign Oil and Gas Ltd.
Dow Chemical International Energy Company
Dawsea Ltd.

220/16 220/21 and 220/22

Conoco (UK) Ltd.
London & Scottish Marine Oil Company Ltd.
Saxon Oil Ltd.

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ANNEX B

BLOCK

GROUPS (OPERATOR UNDERLINED)

South Western Approaches

73/4

BP Petroleum Development Ltd.
Total Oil Marine Ltd.
Elf UK Ltd
Aquitaine UK Ltd.

English Channel

98/11

British Gas Corporation
BP Petroleum Development Ltd:

99/12 and 99/13

Esso Petroleum Company Ltd.
Whitehall Petroleum Ltd.
Premier Consolidated Oilfields Ltd.
Venture Oil Company Ltd.

North of Shetlands

208/21

✓ Elf UK Ltd.
Conoco (UK) Ltd.
Gulf Oil Corporation
London & Scottish Marine Oil Company Ltd.
Barclays North Sea Ltd.

208/22

Esso Petroleum Company Ltd.
RTZ Oil and Gas Ltd.

209/8

✓ Marathon Oil UK Ltd.
IMS Energy Ltd. (IME)
LL & E (UK) Inc.
Norwich Union (Hydrocarbons) Ltd.

214/29

✓ Total Oil Marine Ltd.
Tricentrol North Sea Ltd.
Hispanoil (UK) Ltd.
Pict Petroleum Ltd.
Esco Exploration Ltd.

219/29

✓ BP Petroleum Development Ltd.
Elf UK Ltd
Agip (UK) Ltd.

219/30

✓ Total Oil Marine Ltd.
Tricentrol North Sea Ltd.
Hispanoil (UK) Ltd.
Pict Petroleum Ltd.
Esco Exploration Ltd.

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220/26

BP Petroleum Development Ltd.
Elf UK Ltd
Agip (UK) Ltd.
Enjay Holdings Ltd.

220/27

BP Petroleum Development Ltd.
Elf UK Ltd.
Agip (UK) Ltd.
Enjay Holdings Ltd.

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ANNEX C

BLOCK

(Blocks where recommendations are different from Annex B are starred)

South Western Approaches

73/4

GROUPS (OPERATOR UNDERLINED)

BP Petroleum Development Ltd.
Total Oil Marine Ltd.
Elf UK Ltd.
Aquitaine UK Ltd.

English Channel

98/11

British Gas Corporation
BP Petroleum Development Ltd.

99/12 and 99/13

Esso Petroleum Company Ltd.
Whitehall Petroleum Ltd.
Premier Consolidated Oilfields Ltd.
Venture Oil Company Ltd.

North of Shetlands

208/21

Elf UK Ltd
Conoco (UK) Ltd.
Gulf Oil Corporation
London & Scottish Marine Oil Company Ltd.
Barclays North Sea Ltd.

208/22

Esso Petroleum Company Ltd.
RTZ Oil and Gas Ltd.

209/8

Marathon Oil UK Ltd.
LMS Energy Ltd. (LME)
LL & E (UK) Inc.
Norwich Union (Hydrocarbons) Ltd.

214/29

Total Oil Marine Ltd.
Tricentrol North Sea Ltd.
Hispanoil (UK) Ltd.
Pict Petroleum Ltd.
Esco Exploration Ltd.

219/29

BP Petroleum Development Ltd.
Elf UK Ltd.
Agip (UK) Ltd.

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* 219/30

BP Petroleum Development Ltd.
Elf UK Ltd.
Agip (UK) Ltd.

* 220/26

Shell UK Ltd.
The British National Oil Corporation

220/27

BP Petroleum Development Ltd.
Elf UK Ltd.
Agip (UK) Ltd.
Enjay Holdings Ltd.

27 FEB 1961





Copy to Prime Minister
Chancellor of the Exchequer
Sir Robert Armstrong

Handwritten signature

NA

PS
PS/LPS
PS/Mr Hurd
PS/Mr Ridley
Lord Bridges
Mr Braithwaite
Mr Hannay
Mr Ferguson
EC(D)
WED
Mr Watts (Legal Adv)

FCS/81/13

SECRETARY OF STATE FOR ENERGY

North Alwyn Gas: Elf and Total: Seventh Licensing Round

1. Thank you for your letter of 30 January about securing an early French assurance about directing North Alwyn gas into the gas gathering pipeline. I accept your judgement that the Seventh Round allocations constitute our most effective lever. I therefore agree in principle with the objective and strategy of your proposal.

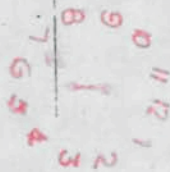
2. However I believe that the tactical handling and planning will be crucial to the success of the operation. It is legitimate and defensible for us to use our position as a substantial oil producer to move others to fall in with our energy policy objectives. Nevertheless the French are likely to react strongly. They may threaten consequences more concrete than those hinted by the French Ambassador to Sir D Maitland: perhaps by seeking linkages with Community matters. They may seek to take the matter up in our courts or with the European Commission, as being contrary to the Treaty of Rome, in particular Article 7. The French companies may argue that we were imposing commercial penalties on them beyond those we have demanded of companies of other nationalities. British firms involved in the French applications might also complain that they were being penalised. The Parliamentary line will have to be drafted to stand up to criticism if (as we may expect) the French make public what we have been doing.

3. It seems to me that one way of reducing the risks might be to offer a concession to the French companies on the gas gathering pipeline or elsewhere which could partially compensate for the disadvantages they will suffer in not using the Frigg pipeline. But this is of course a matter for your Department not mine.



4. I conclude that our officials need to elaborate in detail a credible line to take with the French Government, the French companies, British companies, Parliament and the press. I therefore agree that our officials should now work out the details, in consultation with Sir R Hibbert in Paris. When this has been done I think that it would be right for you and me to look at the matter again before giving the final green light.

(CARRINGTON)



-6 FEB 1981

5 February 1981

Foreign and Commonwealth Office

CONFIDENTIAL

CONFIDENTIAL



SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILEBANK LONDON SW1P 4JQ
01-211-5402

*Allyson
Dunne*

The Rt Hon Lord Carrington PC KCMG MC
Secretary of State for Foreign
and Commonwealth Affairs
Downing Street
London SW1

1. Mr Alexander
2. Prime Minister

You should be aware of
this difficulty over N. Sea gas:
the French companies want
to pipe their gas through
their own pipe-line, we
want it piped through the
gas-gathering pipeline to make
the latter economic. Mr Howe

30 January 1981
propose to withhold new
licences from them if
they don't agree.

MS

See file

R.

NORTH ALWYN GAS: ELF AND TOTAL: SEVENTH LICENSING ROUND

We are, as you know, having a number of difficulties with the French on energy matters. But there is one problem which is particularly pressing - the transmission of gas from Total/Elf's proposed North Alwyn field development. 2/1

The companies wish to send North Alwyn gas down their existing Frigg line to St Fergus. This would be to their financial advantage (perhaps up to £50m) largely as a result of our tax concessions. However, the national interest would be better served were North Alwyn gas to be put into the gas gathering pipeline (GGP) and it is important for the reasons explained below that there is an early commitment of North Alwyn gas to this pipeline.

The latest overall estimates of gas availability for the GGP are at least as high as those made a year ago. However, with some field slippage and down-grading of reserves, and the fact that we cannot at present count on Norwegian Statfjord gas, the expected throughput in the first few years of pipeline operation on which plans for the GGP were based, will be achieved only if the gas from North Alwyn (about 210 million cubic feet per day) is secured. This is of crucial importance since finance for the interim pipeline company will have to be raised in the next two months if the GGP Organising Group is to keep to its schedule. Those concerned with providing the finance will take a hard look at the gas reserves they can be sure will flow through the line. Without North Alwyn gas the initial prospects of the northern leg of the main trunk line look thin. This would become known and, apart from worsening the prospects of the Northern leg, would diminish our chances of getting the Norwegian Statfjord gas on the terms that have been offered. An early quotable commitment of North Alwyn gas to the GGP is, therefore, vital.

In the last resort I have power to refuse permission for a pipeline link from North Alwyn to Frigg. But Elf and Total know that I cannot exercise this, or formally pre-judge the situation, before an application for construction of that line is submitted to me. Elf and Total do not need to hurry in submitting an application, as the overall development programme for the field has not yet been submitted to us and they would not expect to obtain approval for the programme until much later this year.

I believe, therefore, that we should put pressure on the French to give us the early assurance we require. The most effective lever we have for this is the allocation of the remaining Seventh Round awards for offshore licensing.

The French have reacted sharply to the failure of the French companies to gain awards of blocks under the first part of the Seventh Round. Representations have been made to our Embassy in Paris, by the French Ambassador in London, and by the Chairman of Elf Aquitaine. They have also asserted that decisions have already been taken to exclude the French companies from some of the remaining awards. We have not yet made decisions on the remaining awards in the Round, and the French have been advised that they should not pre-judge the results of the Round until it has been completed.

As part of our assessment of licence applications we consider (and this is stated in the published criteria) the extent to which the applicant has made, or is planning to make a contribution to the economy of the UK, including the growth of industry and employment. I believe the French would recognise that the important national interest considerations underlying the GGP must have a relationship with that criterion. I propose therefore that we should reinforce this by very early approaches to the French in London, both the companies and the French Embassy, and in Paris through our Embassy to M de Wissocq of the Energy Directorate, speaking on the lines of the attached aide memoire. Having reminded the French of the important national objective of the GGP and of our policy that North Alwyn gas should come into it and not into any other line, we should make it clear that we wish to have an early and firm undertaking that this will happen. We would also leave the French in no doubt that our licensing policy requires us to take account of contributions to the UK economy and the furtherance of national economic objectives and that in taking decisions on Seventh Round and future licences, Ministers will necessarily look at the French performance in this regard. If this action does not produce quickly the desired response - and I do not think it will - I would propose to announce the majority of the Seventh Round awards but to increase the pressure on the French by holding back certain blocks, primarily all of those - 11 in number - for which the French companies have been shortlisted (they are



aware that they have been shortlisted). Our officials could discuss the precise tactics on this.

If, as is likely, we need to hold back certain blocks, we can expect Parliamentary questions asking why we have done this. We will be able to put forward a plausible explanation without giving the real reasons. The French, however, will know full well what is the reason. We must therefore expect them to mount considerable diplomatic pressure and the atmosphere could become pretty acrimonious. We must also be prepared to hold back the licences, possibly for a number of months - perhaps until after the French election. However, the stakes we are playing for on the gas gathering line are so high that I believe we must do everything possible to achieve the early commitment of North Alwyn gas to that line. I very much hope, therefore, that you will be able to support my proposed action. If you agree, I suggest our officials should straightaway work out the details of our approach to the French and of handling of subsequent representations from them and the ensuing Parliamentary and Press questions.

I am copying this letter to the Prime Minister, the Chancellor and Sir Robert Armstrong.

D A R HOWELL

Yours ever

Dard



NORTH ALWYN GAS

Objective

To ensure early commitment of North Alwyn gas to the proposed gas gathering pipeline (GGP) rather than the Frigg system which is preferred by Total/Elf.

Line to Take

1. As announced by the Secretary of State for Energy last June, the aim is to develop an integrated gas gathering system as recommended in the BGC/Mobil report.
2. The integrated system takes into account:
 - full recovery of natural gas liquids
 - avoiding offshore pipeline duplication
 - maximising the net national benefit
 - simplifying platform processing.
3. Putting North Alwyn gas into the Frigg system would run counter to these objectives and be against the UK's economic interest. Ministers therefore regard this as contrary to the national interest. In the allocation of Seventh Round licences, and for subsequent Rounds, Ministers will necessarily take account of companies' records and plans in such matters.
4. It is therefore important for Total/Elf to bear these factors in mind in reaching an early decision on seeking pipeline consent. An early decision will anyhow resolve problems about platform gas processing facilities in respect of their field development proposals which are at present under discussion.

Defensive Points

- Q1. Why is the British Government pursuing this matter when the BGC/Mobil report made no mention of collecting North Alwyn gas into the new pipeline ?
- A1. At the time it was envisaged that this gas would not be available till the 1990's. The BGC/Mobil report therefore took account of North Alwyn as one of the fields contributing to the aggregate supplies described in the report as 'future UK gas'. Total have subsequently made known that they plan to produce from the mid-1980's.



- Q2. Why will the British Government not allow us to collect our own gas in our own pipeline system [the Frigg system], which was designed to have spare capacity for just such a purpose ?
- A2. The Government has to look at the overall national interest in deciding on the disposal of the nation's hydrocarbon resources.
- Q3. Why should we be forced to pay tariffs (the level of which has yet to be decided) for use of the gas gathering line, to put profits into someone else's pockets ?
- A3. The gas gathering pipeline organisation will operate as a utility transmission company, whose tariffs will be calculated on a cost-of-service basis.
- Q4. Why should we delay production until the gas gathering line is available ? The Frigg system is there now.
- A4. The pipeline is expected to be available in 1984/5, in good time for collection of North Alwyn gas, and work on it is proceeding to schedule.



Background

1. To support our policy for the collection and disposal of UKCS gas, and to enhance the viability of the GGP thereby facilitating its financing, it is most important that gas from the proposed North Alwyn field should be put through the GGP.
2. Elf and Total, the North Alwyn licensees, have a strong preference on commercial grounds for sending the gas down their existing pipeline. The financial advantage is estimated at up to £50m. at a 10% discount rate, largely at the expense of the British taxpayer.
3. The Secretary of State for Energy has power to refuse permission for a pipeline connecting North Alwyn and Frigg but he cannot use this formally in advance of an application for such permission being made to him. As the field development programme is unlikely to be approved before Autumn 1981 the companies have no need to rush their application for the connecting pipeline to Frigg.
4. The initial financing for the GGP must be set in place within the next two months and a firm commitment of North Alwyn gas to the GGP could be essential to success in raising the funds required.
5. The GGP is seen as maximising the net national benefit arising from UKCS gas resources and as being generally supportive of national economic objectives.
6. The French companies have not done badly in the six previous Rounds of licensing. Apart from Germany (and Holland which is a peculiar case) they have a greater stake on the UKCS than any other European company.
7. In the Seventh Round the French applications for three blocks in the 'company nomination area' were unsuccessful. Those for blocks nominated by the Department of Energy are still under consideration. M. Sauvagnarques warned Sir Donald Maitland on 14th January that 'if French companies do not get a fair share of the awards this could lead his Government to question the weight they should attach to British expressions of readiness for wide co-operation with France'.



8. Elf and Total are currently in the running for up to eleven blocks. The assessment of applications is continuing and within the assessment process importance is attached to a range of published criteria including:

'the extent of the contribution which the applicant has made or is planning to make to the economy of the UK.....and the growth of industry and employment'.

9. The importance of the GGP is such that the persistent refusal of Elf and Total to fall in with our wishes over North Alwyn gas could reasonably result in their being marked down heavily on the UK contribution criterion, to the extent that they would have minimum success in the Seventh, and perhaps also in subsequent Rounds.

10. ~ If the situation was reached where only a few awards were made to the companies, they would probably allege that they had been discriminated against. It is, therefore, important that the link between North Alwyn gas and the licensing regime is articulated carefully.

-2 FEB 1981



DS
Cowan

CONFIDENTIAL



10 DOWNING STREET

E Cttee:-
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From the Private Secretary

10 December 1980

The Prime Minister has considered your Secretary of State's minute of 8 December about the Seventh Round of offshore licensing, and is content with his proposals.

I am sending copies of this letter to Private Secretaries to members of E Committee, Brian Norbury (Ministry of Defence), Godfrey Robson (Scottish Office), John Craig (Welsh Office), Robin Birch (Office of the Chancellor of the Duchy of Lancaster), Richard Prescott (Paymaster General's Office) and David Wright (Cabinet Office).

L. P. LANKESTER

Julian West, Esq.,
Department of Energy.

CONFIDENTIAL

RA

P. H. H. H. H.

Contact with Mr
Hansen's proposals?
(Other Depts. are satisfied).

PRIME MINISTER

SEVENTH ROUND OF OFFSHORE LICENSING

I minuted you and E Committee colleagues about the Seventh Round of offshore licensing on 30 April prior to publication on 1 May of the arrangements for the Round. The application period closed in August. An excellent response was achieved, 125 applications being received submitted by a total of over 200 companies.

2. My Department has examined the applications in detail and interviewed all applications in detail and interviewed all applicants. Particular attention has been given to their technical and financial capability, their current and planned contribution to the UK economy and their performance under any existing licences.

3. The Round offered two types of blocks; those in the company own choice area carrying a £5m premium and those specifically designated by my Department. We envisaged licensing about 90 blocks, not more than 70 of which are to be from my Department's list. I have been able to reach conclusions on awards for the premium blocks ahead of those on the Department's list because applicants for the former were required to submit detailed work programmes with their application, which could be examined during the interviewing process. For blocks on my Department's list many companies needed more time for the evaluation of prospects and further technical discussions are required with those in the running for licences before final decisions on awards can be reached. There is, however, no need to hold up the announcement of the premium awards. Public and oil industry interest in the Round is high and it is clearly advantageous to secure the resultant revenue as soon as possible.

4. I propose to make awards for blocks in the company nomination area as listed in the Annex. In accordance with the published terms, awards will be conditional on the prospective licensees:-

- i. confirming their acceptance of a work programme previously discussed with the Department; and



2.

ii. agreeing to give BNOC the option to take at market value up to 51% of petroleum produced.

5. In the company nomination area I intend to licence all blocks for which there are applicants who have been adjudged as being suitable for licences. These amount to 42 blocks so that assuming all the offers are accepted, the sum raised will be £210m. This is substantially more than the amount we had originally expected.

6. The overall pattern of awards for this area has a substantial British content. British companies are involved in all the licences awards and 4 of the smaller British oil companies receive operatorships, as do BP, Shell and BNOC. These three companies feature prominently in the awards, primarily because they were in sole applicant groups for several blocks. The aggregate British equity interest in these licences is around 49% which, together with BNOC's option on 51% of the oil represents a potentially strong basis for security of supply. The indications are that when the licences in the area designated by my Department have also been awarded the overall British content in the whole Round will amount to just over 50% - and will involve a very substantial increase in the involvement of the British private sector, from about 6% to over 40% of total licence interests. This will be a successful outcome bearing in mind that in this round, unlike the 5th and 6th Rounds of our predecessors, BNOC has not had a mandatory 51% equity and has been bidding like any other applicant.

7. A number of EEC companies are included in the awards though none of them French. However French companies are likely to be offered awards from my Department's list in which they showed a greater interest.

8. Some of these blocks are sensitive to fishing interests, and to a lesser extent those of defence. Licensees will be made aware of this so that work on the licences can take proper account of these interests.



3.

9. I intend to announce the awards set out in the Annex early next week by means of a written Parliamentary Answer, the precise date to be settled in discussion with the Paymaster General. Regarding blocks on my Department's list, I hope to reach conclusions on the awards early in the New Year and inform you and colleagues accordingly. The likely number is just under 50.

10. I am sending a copy of this minute to members of E Committee to the Secretaries of State for Defence, Scotland and Wales, to the Chancellor of the Duchy and the Paymaster General and to Sir Robert Armstrong.

JA.
2

SECRETARY OF STATE FOR ENERGY

8 DECEMBER 1980

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PROPOSED SEVENTH ROUND ALLOCATION - COMPANY NOMINATION AREA

<u>BLOCK</u>	<u>GROUP (OPERATOR UNDERLINED)</u>
2/4	<u>British Sun Oil Company Ltd</u> Clyde Petroleum Ltd Charterhall Oil Ltd North Sea Exploitation and Research Co. Ltd Hampton Gold Mining Areas Ltd Hautpas Limited Clyde Petroleum (Minerals) Limited
2/10 (b)	<u>Chevron Petroleum (UK) Ltd</u> ICI Petroleum Limited Sovereign Oil & Gas Ltd Dow Chemical International Energy Co. Dawsea Limited Westburne Drilling & Exploration (UK) Ltd
2/15	<u>Chevron Petroleum (UK) Ltd</u> ICI Petroleum Limited Sovereign Oil & Gas Ltd Dow Chemical International Energy Co. Dawsea Limited Westburne Drilling and Exploration (UK) Ltd
3/7(b)	<u>Chevron Petroleum Company Limited</u> British National Oil Corporation ICI Petroleum Ltd Murphy Petroleum Ltd Ocean Exploration Co Limited Deminex UK Petroleum Limited
3/8(b)	<u>BP Petroleum Development Limited</u> Ranger Oil (UK) Ltd London & Scottish Marine Oil Company Ltd
3/11(b)	<u>Sovereign Oil & Gas Ltd</u> Dow Chemical International Energy Co. Dawsea Ltd
3/16	<u>Sovereign Oil and Gas Ltd</u> Dow Chemical International Energy Co. Dawsea Ltd
3/21	<u>Occidental Petroleum (Caledonia) Ltd</u> Thomson North Sea Ltd Grandmet Oil Ltd Getty Oil (Britain) Ltd Allied Chemical (Great Britain) Limited

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3/27 London & Scottish Marine Oil Co. Ltd
British National Oil Corporation

9/3 Conoco (UK) Limited
British National Oil Corporation
London & Scottish Marine Oil Col Ltd

9/11 Unocal Exploration and Petroleum Co. (UK) Limited
Getty Oil (Britain) Ltd
Ultramar Exploration Ltd
Norwegian Oil Co. D.N.O. (UK) Ltd

9/12(b) Conoco (UK) Ltd
British National Oil Corporation
Gulf Oil Corporation
London & Scottish Marine Oil Co. Ltd

9/13(b) Mobil North Sea Ltd
Amerada Exploration Limited
Texas Eastern (UK) Limited
British Gas Corporation

9/24(b) BP Petroleum Development Limited
Transworld Petroleum (UK) Limited

15/28(b) British National Oil Corporation
Barclays North Sea Limited
Carless Exploration Limited
Deminex Oil & Gas (UK) Limited
Gas & Oil Acreage Ltd
Unocal Exploration & Production Co. (UK) Ltd

16/7(b) BP Petroleum Development Limited

16/8(b) Conoco (UK) Ltd
Saxon Oil Ltd

16/12(b) Phillips Petroleum Company United Kingdom, Limited
Oil Exploration Ltd
Century Power and Light Limited
Agip (UK) Ltd

16/16(b) British National Oil Corporation
Arpet Petroleum Limited
Carless Exploration Limited
Gas & Oil Acreage Limited

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16/21(b)

British National Oil Corporation

Arpet Petroleum Ltd
Carless Exploration Ltd
Gas and Oil Acreage Ltd

16/27(b)

Gulf Oil Corporation

GAO England Ltd
Husky Oil (UK) Ltd
Berkeley Seventh Round Limited
Tanks Oil & Gas Ltd
Tanks North Sea Ltd
Unilon Oil Explorations Ltd
Sunlite Oil Co. (UK) Ltd
DSM Hydrocarbons (UK) Ltd
Oxoco (UK) Ltd

21/3(b)

Occidental Petroleum (Caledonia) Ltd

Thomson North Sea Ltd
Grandmet Oil Ltd
Getty Oil (Britain) Ltd
Allied Chemical (GB) Limited

21/4

Gulf Oil Corporation

Berkeley Seventh Round Limited
Candecca North Sea Limited
Sears Exploration & Development Limited
Tanks Oil & Gas Ltd
Tanks North Sea Ltd

21/11

Texaco North Sea UK Limited

A.B. Exploration Limited
Unigate Exploration Limited

21/13b

Shell UK Limited

Esso Petroleum Co. Ltd

21/17

Shell UK Limited

Esso Petroleum Co. Ltd

21/18

Shell UK Limited

Esso Petroleum Co. Ltd

21/22

Texaco North Sea UK Limited

A.B. Exploration Limited
Unigate Exploration Limited

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21/23(b)

Shell UK Limited

Esso Petroleum Co. Ltd

22/2

Burmah Oil Exploration Limited

Charterhouse Oil & Gas Limited

Charter Consolidated (UK Offshore Oil Explorations) Limited

Swedish Petroleum Limited

Norsk Hydro Petroleum Limited

22/4

Phillips Petroleum Company United Kingdom Limited

Fina Exploration Ltd

Century Power and Light Limited

Oil Exploration Ltd

Agip (UK) Limited

22/5(b)

Superior Oil (UK) Limited

Volvo Petroleum (UK) Ltd

Third Triton Petroleum Ltd

Guthrie Group Investment

Second North Sea Oil and Gas Company Limited

General Assets Limited

22/19

Cities Service (UK) Limited

Attock Petroleum (North Sea) Limited

Hudson's Bay Oil & Gas Company (UK) Ltd

Pennzoil (UK) Limited

North Sea Selection Co. Ltd

Taylor Woodrow Energy Ltd

22/24(b)

Shell UK Limited

Esso Petroleum Co. Ltd

23/16(b)

Shell UK Limited

Esso Petroleum Co. Ltd

23/21(b)

Amoco UK Petroleum Limited

British Gas Corporation

Amerada Exploration Limited

Texas Eastern (UK) Limited

29/1(b)

Monsanto Limited

Enserch Exploration (UK) Limited

Placid Oil Co. (United Kingdom)

Caledonian Offshore Company Limited

W L Exploration Ltd

THF Oil Limited



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- 29/5(b) Ultramar Exploration Limited
Houston Data Venture (UK) Limited
Canadian Pacific Oil and Gas of Canada Limited
The British Electric Traction Company Limited
- 30/1(c) BP Petroleum Development Limited
- 30/25(b) Phillips Petroleum Company United Kingdom Limited
Agip (UK) Limited
Century Power and Light Limited
Oil Exploration Limited
- 210/15(b) BP Petroleum Development Limited
Transworld Petroleum (UK) Limited
- 211/11(b) BP Petroleum Development Ltd
Transworld Petroleum (UK) Limited

ENERGY

Coal Mining Industry

Mr. Skeet asked the Secretary of State for Energy how much has been paid in grants since the Coal Industry Act 1977 for the elimination of uneconomic capacity, the number of colliers affected and the miners transferred up to the most recent date for which figures are available; and how much uneconomic capacity remains to be closed.

Mr. John Moore: The grants paid under section 6 of the Coal Industry Act 1977 have been £32 million to date. I am asking the chairman of the National Coal Board to write to the hon. Member about the other points raised.

National Coal Board

Mr. Skeet asked the Secretary of State for Energy what use he has made of section 7 of the Coal Industry Act 1971 in the past year; and whether he intends to give any directions to the National Coal Board as set out in the section for divestment of particular operations or the sale of assets.

Mr. John Moore: None, and I have no present plans to do so.

Mr. Skeet asked the Secretary of State for Energy whether he has called for a report of National Coal Board activities or any part of them pursuant to section 6 of the Coal Industry Act 1971.

Mr. John Moore: No.

Quangos

Mr. Philip Holland asked the Secretary of State for Energy if he will list the committees, councils, commissions, and other official bodies to which he has appointed members other than civil servants that have been established by him since May 1979, and state in each case the names and full-time employments of those appointed.

Mr. David Howell: No such body has been established since May 1979.

Urenco (Dr. Khan)

Mr. Hannam asked the Secretary of State for Energy whether he has received a copy of the English translation of the report by the Netherlands Government on their investigation of the Khan affair.

Mr. Norman Lamont: Yes. A copy of English translation of the report, together with a copy of the translation of the letter sent by the Netherlands Government to the Netherlands Parliament, has been laid in the Library of the House.

North Sea Oil (Licensing)

Mr. Viggers asked the Secretary of State for Energy whether he will make a statement on the seventh round of offshore licensing.

Mr. David Howell: I have today lodged in the House Library copies of a note describing the method of licensing I have decided on for the seventh round of offshore petroleum production licensing, and including a list and map showing the blocks for which I shall in due course be inviting applications for licences. The principal features of the arrangements will be as follows:

a. My aim is to license approximately 90 blocks, of which at least 20 blocks will be in the area set aside for company nominations;

b. I have listed 80 identified blocks for which I will be inviting applications: a maximum of 70 of these identified blocks will be licensed. In addition, companies will be able to apply for any block or blocks, of their own selection, in a defined area of the northern North Sea, as indicated in the detailed note of the arrangements for the round. Licensees will be required to make an initial payment of £5 million on grant of licence for each block licensed to them in this defined area.

c. Licences will be awarded by the normal discretionary method of allocation. In considering applications I shall take into account the applicant's technical competence and financial capability, and his previous performance and plans for the future on a range of other factors.

The amending regulations to govern the round and to modify certain model clauses will be made and laid before the House as soon as possible. The Gazette notices inviting applications and setting the closing date for receipt of applications will be published when the regulations come into operation. The notices will also set out the arrangements to give BNOG an option to take at market value up to 51 per cent. of the petroleum produced under the new licences.

The arrangements I have decided on have been determined following consultation with interested organisations. During the course of consultations, the view has been put to me that the licensing of some areas, particularly in the English Channel and parts of the Moray Firth, is of major

to his Department, that the cancellation of the Whitebirk link road to the M6-M61 and the alternative strategy of upgrading the existing A6119-A677 north of Blackburn, will result in adequate provision for future traffic growth, and is not likely to cause a bottleneck in traffic flow.

Mr. Kenneth Clarke: Yes. The proposed new link between Whitebirk and M6-M61 has been cancelled because a motorway would not have attracted enough traffic to justify its construction. The A6119-A677 route, suitably improved, should cope with predicted traffic flows.

Quangos

Mr. Philip Holland asked the Minister of Transport if he will list the committees, councils, commissions, and other official bodies to which he has appointed members other than civil servants that have been established by him since May 1979, and state in each case the names and full-time employments of those appointed.

Mr. Fowler: Since May 1979 I have set up the inquiry on lorries, people and the environment.

Sir Arthur Armitage, vice-chancellor and professor of common law at the University of Manchester, is conducting the inquiry and he is assisted by four assessors; Sir Henry Chilver, vice-chancellor of the Cranfield institute of technology, Professor P. J. Lawther, professor of environmental and preventive medicine at St. Bartholomew's hospital and the London Hospital medical schools, Miss A. Lees, county planning officer of Merseyside county council and Professor R. Rees, professor of economics at University College, Cardiff.

ENVIRONMENT

New Towns Consortium

Mr. Latham asked the Secretary of State for the Environment what projects have been carried out overseas by the New Towns Consortium since 4 July 1979; and what is the financial outturn to date.

Mr. Geoffrey Finsberg: Since 4 July 1979, the only new project carried out by the New Towns Consortium has been a further secondment to the World Bank

for an advisory mission in Thailand. Costs and overheads have been recovered. In addition, the Department has been involved in setting up the secondment of new towns staff to assist, on repayment terms, with a housing project in Trinidad; and in arranging, at the request of the Government of Sri Lanka, an exploratory visit to that country.

Quangos

Mr. Philip Holland asked the Secretary of State for the Environment if he will list the committees, councils, commissions, and other official bodies to which he has appointed members other than civil servants that have been established by him since May 1979, and state in each case the names and full-time employments of those appointed.

Mr. Heseltine: I have established one public body since May 1979—the London Housing Staff Commission.

The chairman of the Commission is Mr. Philip Vine and there are two members; Mr. Wilfred Bowdell and Mr. John Dryden. All three are retired.

I have also announced the appointment of the shadow chairman and deputy chairman of two urban development corporations. Mr. Nigel Broackes, chairman of Trafalgar House Limited, is the shadow chairman and Mr. Bob Mellish, Member of Parliament for Southwark, Bermondsey the shadow deputy chairman of the London Docklands urban development corporation. Mr. Leslie Young, chairman of J. Bibby & Sons Ltd., is the shadow chairman and Sir Kenneth Thompson, chairman of the Merseyside county council, the shadow deputy chairman of the Merseyside urban development corporation.

Surplus Local Authority Land

Mr. Cyril D. Townsend asked the Secretary of State for the Environment what steps he plans to take to ensure that the release of surplus local authority land for private development is not prevented by the use of compulsory purchase powers by other local authorities.

Mr. Heseltine: Such orders would be contrary to Government policy, and I would reject them without an inquiry.

interest to the fishing industry and to organisations concerned with environmental matters, and that particular care and consideration are needed in the conduct of exploration and development in these areas. I agree with this view. Oil and gas activities must be carried out in a manner which causes as little inconvenience as possible to other marine users, and which safeguards the environment. When operating in blocks close to the shore, licensees must take special care to avoid pollution. Licensees working in areas of especial interest to the fishing industry should liaise with the relevant fishing organisations about oil and gas operations, and carry out these operations so as to cause as little interference as practicable to fishing interests. On more general environmental matters, I will expect that—as part of the process for preparing a development plan for a discovery near to shore—the licensee will normally carry out a study into the implications of the proposed development on the marine environment, on other users of the sea, and on local coastal areas, consulting the relevant local authority as appropriate. Any proposed installations onshore will be covered by the normal planning procedures.

The Government are confident that the blocks to be offered for licensing, and the arrangements for the round, will provide worthwhile and attractive opportunities for the industry to extend their exploration for oil and gas reserves on the United Kingdom shelf.

PRIME MINISTER (ENGAGEMENTS)

Q4. **Mr. Sheerman** asked the Prime Minister if she will list her official engagements for Thursday 1 May.

Q6. **Mr. William Hamilton** asked the Prime Minister what are her official engagements on 1 May.

Q8. **Mr. Michael Brown** asked the Prime Minister if she will list her official engagements for Thursday 1 May.

Q9. **Mr. Temple-Morris** asked the Prime Minister if she will list her official engagements for Thursday 1 May.

Q10. **Mr. Bob Dunn** asked the Prime Minister if she will list her official engagements for Thursday 1 May.

Q11. **Mr. Robert Atkins** asked the Prime Minister if she will list her official engagements for 1 May.

Q12. **Mr. Lawrence** asked the Prime Minister if she will list her official engagements for 1 May.

Q14. **Mr. Montgomery** asked the Prime Minister if she will list her official engagements for 1 May.

Q15. **Mr. Stephen Ross** asked the Prime Minister if she will list her official engagements for Thursday 1 May.

Q16. **Mr. Freud** asked the Prime Minister if she will list her official engagements for 1 May.

Q17. **Mr. Brinton** asked the Prime Minister if she will list her official engagements for 1 May.

Q19. **Mr. Neubert** asked the Prime Minister whether she will list her official engagements for 1 May.

Q20. **Mr. Parry** asked the Prime Minister if she will state her engagements for Thursday 1 May.

Q21. **Mr. Farr** asked the Prime Minister if she will state her official engagements for 1 May.

Q22. **Mr. John Carlisle** asked the Prime Minister if she will list her official engagements for Thursday 1 May.

Q23. **Mr. Nicholas Baker** asked the Prime Minister if she will list her official engagements for 1 May.

Q24. **Mr. Dykes** asked the Prime Minister whether she will list her official engagements for 1 May.

Q25. **Mr. Meacher** asked the Prime Minister if she will list her official engagements for 1 May.

Q26. **Mr. Whitehead** asked the Prime Minister if she will list her official engagements for 1 May.

Q27. **Mr. Beith** asked the Prime Minister if she will list her official engagements for Thursday 1 May.

Q28. **Miss Joan Lester** asked the Prime Minister if she will list her official engagements for 1 May.

Q29. **Mr. Butcher** asked the Prime Minister if she will list her official engagements for 1 May.

Q33. **Mr. Shersby** asked the Prime Minister if she will list her official engagements for Thursday 1 May.

Q35. **Mr. John Townend** asked the Prime Minister if she will list her official engagements for 1 May.

Q36. **Mr. Trippier** asked the Prime Minister if she will list her official engagements for 1 May.

Q37. **Mr. Flannery** asked the Prime Minister if she will list her official engagements for 1 May.

Q38. **Mr. Leighton** asked the Prime Minister if she will list her official engagements for 1 May.

Q39. **Mr. Watson** asked the Prime Minister if she will list her official engagements for Thursday 1 May.

Q40. **Mr. Bidwell** asked the Prime Minister if she will list her official engagements for Thursday 1 May.

Q41. **Mr. Hannam** asked the Prime Minister if she will list her official engagements for Thursday 1 May.

Q42. **Mr. Colin Shepherd** asked the Prime Minister if she will list her official engagements for Thursday 1 May.

Q43. **Mr. John Home Robertson** asked the Prime Minister if she will list her official engagements for Thursday 1 May.

Q3. **Mr. Kilroy-Silk** asked the Prime Minister if she will list her official engagements for 1 May.

The Prime Minister: I refer my hon. Friends and the hon. Members to the reply which I gave earlier today to the

hon. Member for Workington (**Mr. Campbell-Savours**).

MAY BANK HOLIDAY

Q5. **Mr. Peter Bottomley** asked the Prime Minister if she will reconsider the date of the early May holiday for future years.

The Prime Minister: I understand my hon. Friend's reservations about the May bank holiday, but we have concluded that we should continue with the present arrangements since there are difficulties in each of the alternatives which have been suggested.

Q18. **Mr. Best** asked the Prime Minister if she will introduce legislation to designate the early May bank holiday as "Great Britain Day".

The Prime Minister: I have no plans to do so.

IMPORT CEILINGS

Q7. **Mr. Alexander W. Lyon** asked the Prime Minister if she will take steps to introduce a ceiling on imports allied to a greater State investment in industry in order to revive Great Britain's manufacturing base.

The Prime Minister: A policy of import ceilings would be damaging to the economy, would be contrary to our international obligations and would invite retaliation against our exports. Increased state investment in industry would add to the burden of public expenditure and would need to be financed by higher taxation or higher borrowing—both of which would damage industry.

UNEMPLOYMENT

Q13. **Mr. Stan Thorne** asked the Prime Minister whether she will set up a special investigation into the methods of reducing unemployment.

The Prime Minister: There are already a number of national and international bodies which are studying this problem. No useful purpose would be served by launching a new investigation.



File 16

10 DOWNING STREET

From the Private Secretary

1 May 1980

SEVENTH ROUND OF UKCS OFFSHORE
LICENSING

This is to confirm that the Prime Minister is content with the draft answer enclosed with your Secretary of State's minute of yesterday's date which he intends to make this afternoon.

I am sending copies of this letter to the Private Secretaries to the members of E Committee and to Brian Norbury (Ministry of Defence), Godfrey Robson (Scottish Office), George Craig (Welsh Office) and to David Wright (Cabinet Office).

T. P. LANKESTER

W. J. Burroughs, Esq.,
Department of Energy.

CONFIDENTIAL

LB



Prime Minister

You saw the earlier draft, which has been improved to take into account points from the Treasury and F.C.O. Content for announcement by written answer tomorrow?

PRIME MINISTER

Yes

M.

SEVENTH ROUND OF UKCS OFFSHORE LICENSING:

ANNOUNCEMENT

12 30/4

In the light of the conclusions of E Committee (E(80) 12th Meeting) I have prepared the announcement of the 7th Licensing Round in consultation with the Foreign & Commonwealth Secretary and the Chancellor of the Exchequer. The text of the announcement is attached for your and our colleagues' information and I propose to make it by Written Answer this Thursday, 1st May.

The text takes account of the points made by the Chancellor of the Exchequer and the Lord Privy Seal in their letters of 28th April. In particular in order to give all the help I can on public expenditure I am prepared to increase the initial payment for the company nominated blocks from £4 million to £5 million.

The indications are that the response from industry to the Round will be good, even though it is not as large as some companies would have liked and it contains a limited cash element. We have been able to meet the industry on several of the points they have made. As far as 51% option on oil is concerned, UKOOA have no objection to the principle but would prefer the option to be exercised by us rather than by BNOC. I am sure this is wrong since it would bring the Secretary of State, into an unwelcome degree of involvement in oil trading.

BNOC's involvement and rights under the licence will be strictly limited to those necessary for secure access. These arrangements are similar to those obtaining for our options on oil from existing oilfields, which give us a high degree of security of access to oil.



- 2 -

They are, also fully in line with our policy announcement of 26th July 1979 for BNOC's future oil trading activities in support of the Government's policies for securing our oil supplies.

UKOOA are also seeking a general undertaking that refiners will be able to buy back oil purchased under our oil options. It is not possible or sensible to give undertakings relating to events and circumstances 10 years hence (when the first oil from 7th Round licences is likely to flow); but concern of refiners about buy back is very understandable, and I expect to discuss the matter further with the main individual UK refiners concerned, including BP, Shell and Esso. It is important that this should be handled circumspectly and on an individual company basis otherwise it will not be possible to confine any comfort to UK refiners alone.

I am copying this minute to our E Committee colleagues, to the Secretaries of State for Defence, Scotland and Wales and to Sir Robert Armstrong.

JH.

D A R H
SECRETARY OF STATE FOR ENERGY

Revised of
29 April 1980

PROPOSED STATEMENT BY QUESTION AND WRITTEN ANSWER

QUESTION: TO ASK THE SECRETARY OF STATE FOR ENERGY WHETHER HE WILL
MAKE A STATEMENT ON THE SEVENTH ROUND OF OFFSHORE LICENSING ?

Answer:

I have today lodged in the House Libraries copies of a note describing the method of licensing I have decided on for the Seventh Round of offshore petroleum production licensing, and including a list and map showing the blocks for which I shall in due course be inviting applications for licences. The principal features of the arrangements will be as follows:

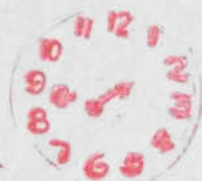
- a. My aim is to license approximately 90 blocks, of which at least 20 blocks will be in the area set aside for company nominations;
- b. I have listed 80 identified blocks for which I will be inviting applications: a maximum of 70 of these identified blocks will be licensed. In addition, companies will be able to apply for any block or blocks, of their own selection, in a defined area of the northern North Sea, as indicated in the detailed note of the arrangements for the Round. Licensees will be required to make an initial payment of £5 million on grant of licence for each block licensed to them in this defined area.
- c. Licences will be awarded by the normal discretionary method of allocation. In considering applications I shall take into account the applicant's technical competence and financial capability, and his previous performance and plans for the future on a range of other factors.

The Amending Regulations to govern the Round and to modify certain Model Clauses will be made and laid before the House as soon as possible. The Gazette Notices inviting applications and setting the closing date for receipt of applications will be published when the Regulations come into operation. The Notices will also set out the arrangements to give BNOOC an option to take at market value up to 51% of the petroleum produced under the new licences.

The arrangements I have decided on have been determined following consultation with interested organisations. During the course of consultations, the view has been put to me that the licensing of some areas, particularly in the English Channel and parts of the Moray Firth, is of major interest to the fishing industry and to organisations concerned with environmental matters, and that particular care and consideration are needed in the conduct of exploration and development in these areas. I agree with this view. Oil and gas activities must be carried out in a manner which causes as little inconvenience as possible to other marine users, and which safeguards the environment. When operating in blocks close to the shore, licensees must take special care to avoid pollution. Licensees working in areas of especial interest to the fishing industry should liaise with the relevant fishing organisations about oil and gas operations, and carry out these operations so as to cause as little interference as practicable to fishing interests. On more general environmental matters, I will expect that - as part of the process for preparing a development plan for a discovery near to shore - the licensee will normally carry out a study into the implications of the proposed development on the marine environment, on other users of the sea, and on local coastal areas, consulting the relevant local authority as appropriate. Any proposed installations onshore will be covered by the normal planning procedure.

The Government is confident that the blocks to be offered for licensing, and the arrangements for the Round, will provide worthwhile and attractive opportunities for the industry to extend their exploration for oil and gas reserves on the UK Shelf.

30 APR 1960





From the Minister

Energy

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

The Rt Hon David Howell MP
Secretary of State for Energy
Thames House South
Millbank
London SW1P 4QJ

R
374
29 April 1980

R. D. Hunt

SEVENTH ROUND: ANNOUNCEMENT OF ARRANGEMENTS

In your letter to Geoffrey Howe of 22 April you invited comments on your proposal, including the text of the announcement and the timing.

I welcome the references to fisheries in both your letter and in the text of the announcement. Oil exploration is, of course, vital to the national economy but it is essential that it should cause as little disruption as possible to the fishing industry in the areas affected. The industry is, as you know, currently facing severe problems. I therefore place particular importance on your proposal for a "code of conduct" for oil companies towards fishing activities. Your officials will, no doubt, be discussing the details with mine as well as with the fishing industry representatives.

In any such code, emphasis must be placed on the imposition of stringent standards in relation to the handling and subsequent clean up of oil related debris. This is vital to fishing interests.

You refer in your letter to environmental studies and in view of my responsibilities with regard to the marine environment, my Department should of course be consulted at an early stage to ensure that these interests are adequately covered.

So far as the text of the announcement and the timing are concerned, I am content except that I should like the addition to the text in the 13th line on the second page after "should liaise with" of "the local representatives of the Fisheries Departments and with".

I am sending copies of this letter to the Prime Minister, the Foreign and Commonwealth Secretary, Secretaries of State for Defence, Scotland and Wales, to members of "E" Committee and to Sir Robert Armstrong.

Peter Walker
PETER WALKER

30 APR 1950

RECEIVED
APR 21 1950



25

25

25

*With the Compliments
of the
Secretary of State*

*Scottish Office,
Dover House,
Whitehall,
London, S.W.1 A 2AU*



Energy

Foreign and Commonwealth Office
London SW1

28 April 1980

*R
28/4*

SEVENTH ROUND: ANNOUNCEMENT OF ARRANGEMENTS

Thank you for sending Peter Carrington a copy of your letter of 22 April to Geoffrey Howe. I have only one point about the text of the announcement you propose to make. I believe that it would be preferable for point (c) to confine itself to the statement that licences will be awarded, as on previous occasions, on a discretionary basis. The aim is to avoid giving grounds for suspicion that the reference to contributions to the UK economy reflects possible discrimination against Community firms. I realise that the present draft reflects language that has previously been used in the London Gazette, but its use in Parliament is much more likely to attract notice.

I am sending copies of this letter to the recipients of yours.

The Rt Hon David Howell MP
Secretary of State for Energy
Thames House South
Millbank
London SW1P 4QJ



28

12 1 2 3 4 5 6 7 8 9 10 11

Energy



Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

28 April, 1980

The Rt. Hon. David Howell, MP.,
Secretary of State for Energy

msm

R

28/4

David Howell

SEVENTH ROUND: ANNOUNCEMENT OF ARRANGEMENTS

Thank you for your letter of 22nd April in which you seek agreement to the text of the statement announcing the arrangements of the Seventh Round.

I am generally content with the terms of your announcement except that I think that it should say in the sixth line:

"My aim is to licence approximately 90 blocks ..."

I suggest this because E Committee's agreement was to a Round of "approximately 90 blocks", not "up to 90 blocks". The change is important because it is just possible that you will want to allocate applications for all the 70 "identified blocks". That would then mean that you could only licence 20 "nominated" blocks, even though you might have received acceptable applications for more. This would result in some loss of revenue since there will be an initial payment for the "nominated" blocks.

My only other comment is to wonder whether this initial payment might not be £5m rather than £4m. I recognise that £4m was the sum suggested in your paper to E Committee, and was I think, based on a rough estimate of the cost of drilling one well. But £5m is a round figure and just as good an estimate of the cost of drilling a well. Above all, it would increase receipts by some £20m, if you are confident that 20 nominated blocks will be allocated. This extra revenue would be particularly useful in view of the difficulties in meeting the £500m disposal target for 1980-81. I leave it to you to decide the amount of the initial payment for nominated blocks, but I hope that you will look at £5m sympathetically.

Finally, could I ask that your Department should consult mine about the number of nominated blocks which will be allocated before coming to a final decision. This will have consequences for the PSBR.

/I am sending



I am sending a copy of this letter to the Prime Minister, the Foreign and Commonwealth Secretary, the Secretaries of State for Defence, Scotland and Wales, to members of E Committee and to Sir Robert Armstrong.

Handwritten signature and scribbles, including a large checkmark-like mark and a horizontal line.

GEOFFREY HOWE

28 APR 1960

12 1 2 3 4
5 6 7 8 9 10 11



Energy

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

The Rt Hon David Howell MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
LONDON

22074
24 April 1980

Dear David,

SEVENTH ROUND: ANNOUNCEMENT OF ARRANGEMENTS

Thank you for copying to me your letter of 22 April to the Chancellor about your proposals for the Seventh Round of Licensing.

I had hoped that we might have had more time to examine in greater detail the actual areas to be licensed but I recognise your desire and that of colleagues to press ahead with the arrangements for the Round. However, as your letter acknowledges, the proposals for licensing in the Moray Firth (15 blocks in all) are alone bound to generate considerable hostility in the fishing industry. I accept that overall the number of sensitive fishing areas affected has been reduced from that originally proposed by your officials; that the Inner Moray Firth area escaped the Fifth and Sixth Round allocations; and that other parties in the area are keen to see exploration activity. The fact remains that oil activity could have major implications for the inshore fishing industry which operates there and which, due to the size of their vessels, simply cannot fish elsewhere.

I therefore place great store by your commitment to consult the fishing industry on any additional blocks which may be licensed as a result of "own choice" applications and of your intention to draw up a "code of conduct". I ought to say however that I doubt whether the fishermen will feel that their interests have been generally safeguarded and Peter Walker and I are bound to be under increased pressure on their claim for compensation for loss of access.

The above reservations apart, I am generally content with the terms of your proposed announcement. I am copying this letter to the recipients of yours.

Yours sincerely,

George

25 APR 1980



SECRETARY OF STATE
THAMES HOUSE
MILKMARK LANE

01 211 6402

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury
Parliament Street
SW1P 3HE

Dear Secretary

SEVENTH ROUND: ANNOUNCEMENT OF ARRANGEMENTS

It was agreed by colleagues at the 'E' Committee meeting on 3rd April that we should press ahead with preparations for the Seventh Round. I was invited to prepare an announcement on the size and method of licensing for the Round, and invited also to agree the timing of the announcement with yourself and the Foreign Secretary. I attach at Annex 'A' the text of the statement I propose to make. The announcement makes clear that there will be a limit of 90 blocks awarded, of which at least 20 blocks will be in the 'company nomination area' and thus attract a fixed initial payment of £4 million per block.

The statement will be accompanied by a more detailed note which will be lodged in the House Libraries, and will list the blocks available and the licensing criteria. The announcement will not constitute the formal invitation of applications (we need to make Amending Regulations and prepare a Gazette Notice before that can be done) but it will provide the information companies need to begin preparing their applications.

I attach at Annexes 'B' and 'C' respectively, a list and map showing the blocks on which applications will be invited. This comprises two parts; (i) the traditional arrangements, whereby I specify by number the blocks on which I will be inviting applications; and (ii) the "company nomination area", where I will not specify individual blocks by number, but companies will be able to apply for blocks of interest to them. My own list of 80 blocks on offer should provide a reasonable prospect of awarding 70 blocks under the traditional arrangements. In the unlikely event we were to receive applications for more than 70 blocks on this list, some would remain unlicensed; in the event fewer applications were received, it should be possible to make up the shortfall from applications for blocks in the "company nomination area". We should therefore be able to reach our overall target of the award of 90 blocks using both the traditional and the new arrangements.

The blocks offered for licensing include a core of territory which will enable companies to extend exploration from the existing discoveries in the northern North Sea and Moray Firth.

Ann Hirst

2

To note that Mr Howell is planning to announce the seventh licensing round arrangements next week after the European Council. I think we can leave it to the Treasury and FCO to

22nd April 1980

Comment on the draft statement. It seems O.K. to me.

R. 24/4

mt

Blocks have also been included in territory which is as yet relatively untested and some of which is in deeper water than as yet explored on the UK Continental Shelf. We thus have a mixture of comparatively well known territory, and challenging new areas.

The blocks have been selected following consultation between my officials and those of other Departments with marine interests, and the licensing of a substantial number has been made possible by the mutual acceptance of restrictions on defence and oil activities, and by special arrangements near shipping lanes. We have also consulted organisations outside Government about the general areas we had under consideration for licensing (the individual blocks have not yet been disclosed outside Departments). These consultations have shown two areas where further licensing will not be unanimously welcomed ie the inner Moray Firth and the English Channel. The fishing industry and environmental interests have expressed concern about activities in the inner Moray Firth. Both would prefer to see no, or as little as possible licensing in the area. We hope to counter fishing industry opposition by drawing up a 'code of conduct' on fishing activities in the area. The Highlands Regional Council and the Highlands and Islands Development Board are, on the other hand, eager to see blocks awarded in the Firth to help stimulate employment and industrial activity onshore. They are particularly keen to see this because the Department held back from putting up blocks there in both the Fifth and Sixth Rounds. I have, therefore, decided to offer for licensing 7 blocks in the inner Moray Firth, though I would have seen advantage in a more substantial number, had the matter not been so sensitive. The concern about licensing in the English Channel arises mainly in regard to the possible pollution threat to tourist amenities and areas of environmental importance. Here again we are limiting the number of blocks on offer, so as to test the area while minimising inconvenience to other marine users.

In both the inner Moray Firth and the English Channel we will be ensuring that particular care is taken to avoid pollution, and to provide for environmental studies before development of any discoveries proceeds. I have included a passage in the statement to make clear our recognition of the need for care in carrying out licensing operations in these areas.

There is one further aspect of consultation. Because we do not know which blocks the companies will apply for in the 'company nomination area', my officials have not been able to consult their respective colleagues about licensing of particular blocks in that area. They will do so when we receive the applications, and will also advise the relevant defence, fishing and environmental organisations at that time of blocks for which applications have been received.

I propose to make the announcement as soon as possible after the meeting of the European Council: the date I have had in mind is 30 April.

May I assume that, if I have not heard to the contrary by 25 April colleagues are content with the proposal, including the text on the announcement and its timing.

I am sending copies of this letter to the Prime Minister, the Foreign and Commonwealth Secretary, Secretaries of State for Defence, Scotland and Wales to members of 'E' Committee and to Sir Robert Armstrong.

Howell

D A R HOWELL

David

CONFIDENTIAL

PROPOSED STATEMENT BY QUESTION AND WRITTEN ANSWER

QUESTION: TO ASK THE SECRETARY OF STATE FOR ENERGY WHETHER HE WILL MAKE A STATEMENT ON THE SEVENTH ROUND OF OFFSHORE LICENSING ?

Answer:

I have today lodged in the House Libraries copies of a note describing the method of licensing I have decided on for the Seventh Round of offshore petroleum production licensing, and including a list and map showing the blocks for which I shall in due course be inviting applications for licences. The principal features of the arrangements will be as follows:

- a. My aim is to license up to 90 blocks, of which at least 20 blocks will be in the area set aside for company nominations;
- b. I have listed 80 identified blocks for which I will be inviting applications. ^{a maximum of 70 of these identified blocks will be licensed.} In addition, companies will be able to apply for any block or blocks, of their own selection, in a defined area of the northern North Sea, as indicated in the detailed note of the arrangements for the Round. Licensees will be required to make an initial payment of £4 million on grant of licence for each block licensed to them in this defined area.
- c. Licences will be awarded by the normal discretionary method of allocation. In considering applications I shall take into account a range of factors including the applicant's technical competence and financial capability, where appropriate his previous licence performance and his current programme and plans for exploration on his present licences; and the applicant's performance and plans for contributing to the UK economy and in affording full and fair opportunity for UK industry to compete for orders of goods and services.

The Amending Regulations to govern the Round and to modify certain Model Clauses will be made and laid before the House as soon as possible. The Gazette Notices inviting applications and setting the closing date for receipt of applications will be published when the Regulations come into operation. The Notices will also set out the arrangements to give BNOG an option to take at market value up to 51% of the petroleum produced under the new licences.

The arrangements I have decided on have been determined following consultation with interested organisations. During the course of consultations, the view has been put to me that the licensing of some areas, particularly in the English Channel and parts of the Moray Firth, is of major interest to the fishing industry and to organisations concerned with environmental matters, and that particular care and consideration are needed in the conduct of exploration and development in these areas. I agree with this view. Oil and gas activities must be carried out in a manner which causes as little inconvenience as possible to other marine users, and which safeguards the environment. When operating in blocks close to the shore, licensees must take special care to avoid pollution. Licensees working in areas of especial interest to the fishing industry should liaise with the relevant fishing organisations about oil and gas operations, and carry out these operations so as to cause as little interference as practicable to fishing interests. On more general environmental matters, I will expect that - as part of the process for preparing a development plan for a discovery near to shore - the licensee will normally carry out a study into the implications of the proposed development on the marine environment, on other users of the sea, and on local coastal areas, consulting the relevant local authority as appropriate. Any proposed installations onshore will be covered by the normal planning procedure.

The Government is confident that the blocks to be offered for licensing, and the arrangements for the Round, will provide worthwhile and attractive opportunities for the industry to extend their exploration for oil and gas reserves on the UK Shelf.

CONFIDENTIAL

10.4.80

BLOCKS TO BE RECOMMENDED TO MINISTERS FOR INCLUSION IN THE ROUND

East of Shetlands	209/30	SW Approaches	72/15
	1/4		72/25 and 73/21
	1/5		73/2
			73/3
			73/4
Moray Firth	11/25		73/5
	20/11		73/6
	12/21		73/6
	20/12		73/10
	12/22		73/13
	20/13		73/14 and 73/19
	12/23		73/15
	20/14		73/17 and 73/18
	12/24		
	20/15		
	12/27		
	12/28		
	12/29		
	13/11		
	13/26	W. Shetlands	206/1
			214/25
Southern North Sea	43/26		214/27
	47/14(b)		214/28
	49/10(b)		214/29
	49/30(b)		208/9
	50/16* and 50/21		208/10
	50/26(b)		208/13
	54/1(b)*		208/14
			208/16
English Channel	99/12* and 99/13*		208/17
	99/16		208/18
	99/17		208/21
	99/18		208/22
	98/11*		209/1
	98/17		209/2
	98/18		209/4
	87/8		209/8
	87/13		209/12
	86/17		
	86/22		
	86/23		
North of 62°N	218/29		
	218/30		
	219/20		
	219/25		
	219/26		
	219/27		
	219/28		
	219/29		
	219/30		
	220/16 and 220/21 and 220/22		
	220/26		
	220/27		

On these blocks, drilling will be restricted as follows:

- 50/16 No drilling may take place in this block north of $53^{\circ}27'N$.
- 54/1 (b) No drilling may take place in this block south of $52^{\circ}52'N$,
- 99/12 No drilling may take place in this block north of a line drawn between co-ordinates $50^{\circ}33'30''N$ $00^{\circ}48'W$ and $50^{\circ}35'N$ $00^{\circ}36'W$.
- 99/13 No drilling may take place in this block north of a line drawn between co-ordinates $50^{\circ}35'N$ $00^{\circ}36'W$ and $50^{\circ}37'N$ $00^{\circ}24'W$.
- 98/11 No drilling may take place in this block in the area bounded by co-ordinates

1. $50^{\circ}30'N$ $01^{\circ}59'W$
2. $50^{\circ}35'20''N$ $01^{\circ}48'W$
3. $50^{\circ}30'N$ $01^{\circ}48'W$

Definition of company nomination area.

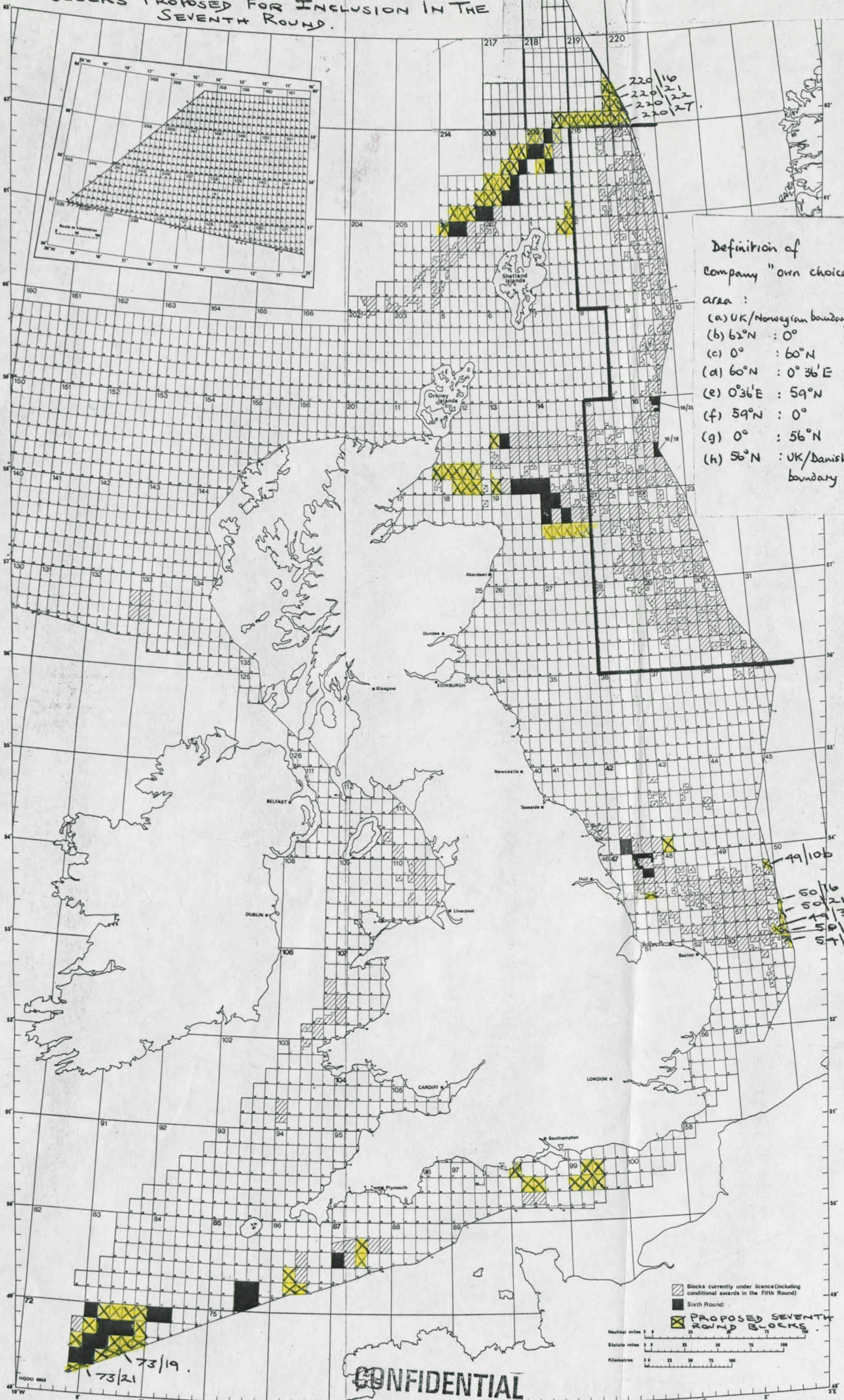
The company nomination area will be bounded by lines joining the following co-ordinates:

- (a) UK/Norwegian boundary: $62^{\circ}N$
- (b) $62^{\circ}N$: 0°
- (c) 0° : $60^{\circ}N$
- (d) $60^{\circ}N$: $0^{\circ}36'E$
- (e) $0^{\circ}36'E$: $59^{\circ}N$
- (f) $59^{\circ}N$: 0°
- (g) 0° : $56^{\circ}N$
- (h) $56^{\circ}N$: UK/Danish boundary.

U.K. CONTINENTAL SHELF
BLOCKS PROPOSED FOR INCLUSION IN THE SEVENTH ROUND.

16 APRIL 1980

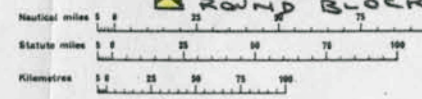
(C)



Definition of
Company "own choice"
area :

- (a) UK/Norwegian boundary: 62°N
- (b) 62°N : 0°
- (c) 0° : 60°N
- (d) 60°N : 0° 36'E
- (e) 0° 36'E : 59°N
- (f) 59°N : 0°
- (g) 0° : 56°N
- (h) 56°N : UK/Danish boundary

Blocks currently under licence (including conditional awards in the Fifth Round)
 Sixth Round:
 PROPOSED SEVENTH ROUND BLOCKS



22 APR 1960

BRITISH
POST
OFFICE

Top copy
Energy Policy p 4

Energy 2

PRIME MINISTER

To see. If there
are comments from
colleagues, we will report
them to you.

01 211 6402

T P Lankester Esq
Private Secretary to the Prime Minister
10 Downing Street
London SW1

MS
18/4

17 April 1980

Dear Sir,

DEPLETION POLICY STATEMENT

I am writing to clarify the position on my Secretary of State's Statement on Depletion Policy, which was discussed at E on 3 April.

[minutes
at A]

As my Secretary of State explained in his letter of 27 March to the Foreign Secretary, he intends as a first step to meet with representatives of the UK Offshore Operators Association which is the representative body of companies producing oil on the UK Continental Shelf. This meeting will be set up soon after the meeting of the European Council on 26/27 April. Mr Howell has had in mind to give UKOOA some 3 to 4 weeks to respond, after which he would be in a position to make the Statement on Depletion Policy - probably in the first half of June. Although my Secretary of State expects to make the Statement on Depletion Policy somewhat later than might be inferred from the Minutes of E(80)12th meeting he will want to make his statement on the Seventh Licensing Round as soon as possible after the European Council meeting. There is, of course, no need for the two statements to be made at the same time.

[8]

I am sending copies of this letter to the Private Secretaries of Members of E, Sir Robert Armstrong and Mr Ibbs.

Yours sincerely
Bill

W J BURROUGHS
Private Secretary

Size

Tracks +

Praying +

70-90 →

Nominating made themselves

Authorship - Cash holdings

Abstract by division.

by Ly -

by Auction.

3/4/80



CONFIDENTIAL

Energy

FCS/80/72

SECRETARY OF STATE FOR ENERGY

Size of the 7th Licensing Round

1. As I shall not be able to attend the meeting of 'E' on Thursday (Ian Gilmour will be the FCO representative), I should like to add a further argument in support of your recommendation of a larger Licensing Round of which there is no mention in your paper. A timely announcement that we are proposing to go for a larger Licensing Round will be helpful in persuading our Community partners that we are doing all we can to develop the resources in the North Sea (helpful in the budget context); and we should be able to make good use of the fact that the North Sea regime is non-discriminatory and thus gives full opportunity for the participation of Community companies (John Nott mentioned this in the letter of 17 March from his office to yours: further correspondence ensued).
2. I am sending copies of this letter to the Prime Minister, to other members of 'E' and to Sir Robert Armstrong.

C
/

(CARRINGTON)

Foreign and Commonwealth Office

2 April 1980

CONFIDENTIAL

2 - APR 1960



Ref A01886

PRIME MINISTER

7th ROUND OF LICENSING AND DEPLETION POLICY
 (E(80) 31, E(80) 32 and a letter dated 27 March
 from the Secretary of State for Energy to the
 Foreign Secretary)

BACKGROUND

There are three issues -

- a. The size of the 7th Round (E(80) 31);
- b. Revenue from the 7th Round (E(80) 32);
- c. The timing of an approach to the oil companies about depletion policy (Mr Howell's letter of 27 March to the Foreign Secretary.)

2. Size of the Round: E decided last year that the 7th Round should comprise 70 blocks (E(79) 13th meeting). Mr Howell wants to be free to offer more blocks than this. His preferred method - paragraph 8 of his paper - would be to invite applications for 70 specified blocks and to allow the oil companies to bid for further blocks of their own choosing in the northern North Sea - with something like 20 to 40 blocks being handled in this way. This second proposal would no doubt be very welcome to the oil companies, but can be criticised on the grounds that it enables them to "pick the eyes" out of the remaining territory and thus diminish the attractiveness of future licensing rounds. Against this Mr Howell will argue that it is the quickest way to get extra production in the 1990s when North Sea output may be falling sharply. Colleagues will have to decide whether to accept Mr Howell's advice (reinforced by a late minute from the Foreign Secretary supporting a larger round for 'European' reasons). It will be important to distinguish between a larger round as such and a round enlarged by the choice route. The former may be easier to accept than the latter.

3. "Auctioning licences": Mr Howell wants to issue licences on the old discretionary basis as being, in his judgment, the best way of meeting our other objectives such as favouring smaller British companies. The Chancellor sees auctioning of at least part of the licences as a quick and easy way of raising a lot of money. No one knows how much could be raised this way but the very limited auctioning experiment in the 4th Round raised over £100 million and a



good deal more may be obtainable now. Auctioning is of course common practice in the United States of America. As a half-way house Mr Howell is now suggesting in his paper (E(80) 32) that more revenue could be raised by imposing higher licensing charges on at least some of the blocks, with discretion as to who gets the licences being left firmly in his hands. He estimates the possible receipts from this as perhaps £80-£100 million if the higher charges were confined to the 'own choice' blocks recommended in his other paper (E(80) 31).

4. Mr Howell is right in saying that auctioning limits his discretion, but there are two points to be made. First, it is by no means clear that Mr Howell's objectives are not obtainable within an auctioning system, especially if he follows the Chancellor's suggestion of auctioning some licences and allocating others. Indeed there may be other ways of solving the problem, eg applicants could be required to provide themselves with British or European partners. Second, the exercise of Government discretion in a situation where very large sums of money are at stake is an inherently uncomfortable operation. An auctioning system based on fair and known rules would be a major safeguard against charges of impropriety. There is of course absolutely no reason to suppose that such charges would have substance but the risk is there.

5. Consultation on depletion policy: At the meeting of E on 11 March (E(80) 9th Meeting, Item 1) when depletion policy was discussed, it was agreed that Mr Howell should defer discussion with the oil companies about depletion policy "until after the European Council meeting at the end of March". Now that the Council has been deferred Mr Howell wants to move straight away to such consultation while reserving any statement on policy until after the postponed Council is out of the way. The considerations which influenced the earlier decision, however, still stand and colleagues may feel that Mr Howell should curb his impatience for a further month. A late minute from the Foreign Secretary to Mr Howell has urged just this.

HANDLING

6. You may find it convenient to tackle the issue separately in the order set out above and to invite Mr Howell to introduce each in turn.



CONCLUSIONS

7. Subject to discussion, these might be:-

Either (i) to confirm the previous decision that the 7th Round should consist of 70 blocks,

Or (ii) to agree on a higher number (Mr Howell's original bid last year was for 100 blocks);

And (iii) to record a specific decision on whether the oil companies should be allowed to choose some of the blocks for themselves.

(iv) Either to agree that some of the licences should be auctioned with details to be settled between the Secretary of State for Energy and the Chancellor,

Or (v) to accept the Secretary of State for Energy's proposal for a higher charge for some blocks while retaining allocation by discretion.

(vi) To agree on whether Mr Howell should or should not enter into discussions with the oil companies on depletion policy before the next meeting of the European Council.

ROBERT ARMSTRONG

*(approved by Sir Robert Armstrong
and signed in his absence)*

2 April 1980

Energy

original filed on: Euro P9: Community Budget: Pt 6.

01 211 6402

The Rt Hon Lord Carrington PC KCMG MC
 Secretary of State for Foreign and Commonwealth Affairs
 Whitehall
 LONDON SW1

19 March 1980

Dear Peter

EUROPEAN SUMMIT: SEVENTH LICENSING ROUND

You will have seen the letter of 17 March to my office from John Nott's office reporting the suggestion made to him by BP that a statement in European terms indicating a larger Seventh Licensing Round than the 70 blocks we have proposed, could be helpful in the context of the Budget negotiations.

You know that I am in any case in favour of a larger licensing Round and argued the case for this last Autumn. We are due to discuss the size of the Seventh Round and the question of introducing a cash element into it at a meeting of the E Committee scheduled for 2 April. Whilst it is not practicable to try to settle our policies on all the outstanding questions on the Seventh Round before the Committee discussion, we could, if colleagues agree, go some way to dealing with the size of the Round in order to assist our negotiations on the Budget.

It had been my intention to reiterate the arguments in favour of a larger Round at the E Committee meeting. However I myself believe that a substantive indication of our readiness to offer increased opportunities for exploration of the North Sea, which a larger round will afford, could be materially helpful in the forthcoming Budget negotiations. Accordingly if you and our colleagues agree I would be very ready to see a reference made in the context of the Budget negotiations to a larger Round than we have so far announced.

If this is agreed, my Department will consult with yours and others concerned about the form of words. It would be important to make quite clear that a larger Round would not carry with it any special preference for EEC companies. We would welcome their participation, but their applications would be assessed on the same basis as those of other companies.

When the size of the Seventh Round was last discussed by the colleagues, there was some concern that a Round larger than the 70 blocks then agreed might result in a smaller proportional British content because foreign companies, particularly American, so greatly outnumber British ones. I am satisfied that this would not now be the case. Over the past 6 months I and my Department have informally stressed to potential applicants the importance of securing a sizeable British content in the groups they are forming to apply for Seventh Round licences, and it is clear that this endeavour is meeting with considerable success. We will be able to give full weight to the British content in an enlarged Round so long as we

(2)

continue to retain our discretion over awards.

I am copying this letter to the Prime Minister, Chancellor of the Exchequer, Secretary of State for Trade and Sir Robert Armstrong.

D A R Howell

Howell
Davis



Energy

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

CONFIDENTIAL

The Rt Hon David Howell MP
Secretary of State for Energy
Thames House South
Millbank
LONDON

18 March 1980

R
1917

SEVENTH ROUND OF OIL LICENSES

Thank you for copying to me your letter of 7 March to the Chancellor on auction licensing and the size of the Seventh Round. I have also seen Geoffrey Howe's reply of 12 March.

As the letters indicate, there are very complex issues to be considered here and apart from the revenue questions that arise I, for my part, have to bear in mind the impact of any moves on the onshore oil-related industry and also the impact on the fishing industry. I therefore support Geoffrey Howe's suggestion that the best course would be if you could circulate a paper as a basis for discussion within the appropriate Ministerial Committee.

I am copying this letter to Geoffrey Howe, Members of E Committee, Sir Kenneth Berrill and Sir Robert Armstrong.

GEORGE YOUNGER

19 MAR 1960



Mr. Duguid



Prime Minister Energy 2
You should be aware that
Trammy and Energy
disagree on whether there
should be
auctioning in

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

[Handwritten signature]

(Ken Benn's
note at Flug A
sides strongly
with the Treasury)

12 March 1980 the 7th Round.

This will need to
come to E, along
with the size of
the round.

CASH BIDDING FOR THE SEVENTH ROUND OF OIL LICENCES

Thank you for your letter of 7 March about the
possibility of auctioning the Seventh Round of oil
licences.

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12/3

First, I am most grateful for the detailed
consideration which you and your Department have put
to this subject. Your suggestion for an 'additional
cash bonus' scheme for the 'own choice' blocks is a
helpful and constructive idea. Nevertheless, I am
sorry to have to say that I am still not convinced
that there should not be cash bidding for at least a
substantial number of the specified blocks as well
as for the 'own choice' blocks.

I recognise your concern that competitive cash
bidding would make it harder to implement our general
policies for the North Sea, such as full and fair
opportunity for British industry and the security
of UK oil supplies. But I wonder whether the fears
here are not exaggerated. Companies will be kept on
good behaviour by their fear of what might happen
to their applications in future licensing rounds.
No company in its right mind would act against the
Department's wishes in respect of a licence acquired
through a cash bid since it would have no guarantee
that in future licensing rounds the Department would
not revert to the old discretionary system and penalise
it for its misdeeds. The incentive to conform with
Government policies could be strengthened by subject-
ing only a proportion of the Seventh Round licences
to cash bidding with the remainder being issued under
the normal discretionary system. This, coupled with
a statement that while cash bidding will be a settled
feature of licensing rounds, future rounds are likely
to contain also discretionary awards, ought to keep
potentially troublesome companies in check.

/ I also

The Rt Hon David Howell MP



I also recognise the need to give British companies the fullest opportunity to participate in the round. But to rule out cash bidding on this ground would be tantamount to subsidising the British companies' concerned at the Exchequer's expense. Furthermore, I am not convinced that a cash bidding system could not be combined with elements of the discretionary system so that you were free to accept or reject bids in a way which permitted British companies to be given the fullest opportunity to participate in the rounds. Certainly our decisions on awards would need to be defended before the PAC, but I suspect that the Committee would look more favourably on such a system than they would on a wholly discretionary system of awards, which they have criticised in the past.

The third problem, referred to in annex A of your letter, is that the need to formulate suitable arrangements for cash bidding would mean that the licences could not be awarded in the financial year 1980-81 so that receipts would not be received in that year. The arrangements for a licensing round are undoubtedly complicated but surely if we pressed ahead with maximum speed, most of the awards could be made within the next 12 months. The industry have already been consulted in general terms about the possibility of introducing a criterion into the licensing conditions which would afford companies the opportunity to offer cash premia for offshore blocks and would allow you to take such offers into account in assessing applications.

As I said earlier, the proposal for an additional cash bonus scheme for the 'own choice' blocks is a helpful one. But it does have the weakness that no-one can know whether the price chosen for the blocks is the right one. It seems to me that the only way of checking that it was so would be to auction off these licences as well.

Turning to your proposal for a larger round, I certainly would be willing to reconsider this if you thought it essential to help the success of a round which included an element of cash bidding.

You will see from this that I am not convinced that there should not be a substantial element of cash bidding for both the specified and 'own choice' blocks in the Seventh Round. Could I suggest that if you are still unconvinced, you should circulate a paper to the appropriate Ministerial Committee so that decisions can be reached quickly and the detailed arrangements for the round promulgated.

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come to

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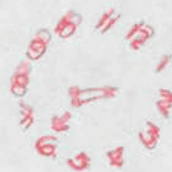


I think that it would be helpful if your paper covered the case for cash bidding for both specified and 'own choice' blocks and for applying the 'additional cash bonus' scheme to the specified as well as to the 'own choice' blocks.

I am sending a copy of this letter to Members of E Committee, the Secretary of State for Scotland, to Sir Kenneth Berrill and to Sir Robert Armstrong.

[Handwritten signature]
(G.H.)

112 MAR 1960



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Qa 04967

To: MR LANKESTER *RMS*
From: SIR KENNETH BERRILL

Auctioning of 7th Licensing Round

1. You asked ^{4.2.80} for CPRS comments on the Ministerial correspondence on the 7th Licensing Round. Mr Howell in his letter to the Chancellor comes down against auctioning broadly on the basis of the following arguments:
- (i) cash bids would be at the expense of drilling activity;
 - (ii) cash bidding would reduce the Secretary of State for Energy's discretion in awarding licences;
 - (iii) cash bidding would favour tax paying companies because of tax offsets;
 - (iv) licences could not be awarded in 1980/81 because of the need for consultation with the industry;
 - (v) small companies, and particularly British companies, would be at a disadvantage.
2. Taking these arguments in sequence:
- (a) it seems ingenuous to believe that oil companies allocate an immutable lump of capital to United Kingdom Continental Shelf activity and that cash bids for a 7th Round would therefore be at the expense of other UKCS exploration and development. The major oil companies look at their exploration programmes on a worldwide scale. Around the rest of the world the majors are seeing their supplies being eroded by the rapid growth in direct sales by the producer countries to consumer nations. There must be flexibility to channel extra funds to a proven oil producing area like the UKCS offering secure access to oil. In short, if the prospects are attractive the funds will be forthcoming.

CONFIDENTIAL

(b) Mr Howell's arguments in (ii), (iii) and (v) are undermined if only a few of the better blocks were to be auctioned and the remainder allocated in the normal discretionary way. We have done this before. In the 4th Round, 15 blocks were offered for auction and of the total bids received amounting to some £135m., £123m. was accounted for by only 3 blocks. Therefore, if say the 10 most attractive of the 70 blocks available were to be auctioned it seems very likely that this would attract the bulk of the money on offer. Small British companies could be favoured in the remaining 60 blocks. If the auctioned blocks favoured the companies with tax paying companies then this would ensure that the best blocks were being allocated to companies which had already proved their technical competence in bringing fields into production.

*Amendment from
Sir K. Bevil's office*

(c) Given that we have already had experience of auctioning in the 4th Round, Mr Howell's assertion in (iv) that it would take more than a year 'to formulate suitable arrangements' seems hardly credible.

Size of the 7th Round

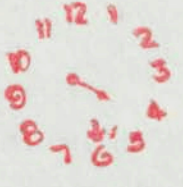
3. At E Committee yesterday it was agreed that if Mr Howell wanted to return to his plea for more than 70 blocks he would put a fresh paper to E. It is no surprise that the oil companies' negotiating stance is for a larger round since they like to have allocated undrilled acreage 'under their belts'. But the CPRS still finds convincing the arguments put forward for a 7th Round of 70 blocks because (a) of the need to encourage exploration in existing acreage (the latest Brown Book puts reasonable reserves in future discoveries on existing licences at 300-750m. tonnes and those on the remainder of the UKCS at 550-1000m. tonnes); (ii) the smaller the round the greater the likely participation by British companies; and (iii) pace Mr Howell, a larger round will not necessarily lead to greater drilling activity over the next few years and would restrict our ability to offer attractive acreage in future rounds.

4. We understand that the Chancellor, also, finds the arguments put forward by Mr Howell less than convincing and will be minuting the Secretary of State for Energy suggesting that auctioning of licences be discussed at E.

5. I am sending a copy of this minute to Sir Robert Armstrong.

KB

12 MAR 1980



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Energy

10 DOWNING STREET

From the Private Secretary

B/F 17.3.80

SIR KENNETH BERRILL

Auctioning of 7th Licensing Round

There has been an exchange of correspondence between the Secretary of State for Energy and the Chancellor. on the above subject culminating in Mr. Howell's letter of 7 March. This comes down against auctioning, and proposes that the 7th round should be larger than 70 blocks.

The Prime Minister has from time to time expressed the view that it would be worth auctioning in order to raise funds for the Exchequer, and E Committee last October did of course decide that the licensing round should be confined to 70 blocks. Against this background, I would be grateful for any comments you may have.

I am sending a copy of this minute to David Wright (Cabinet Office).

~~M. A. PATTISON~~

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10 March 1980

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The Rt Hon Sir Geoffrey Howe QC MP
 Chancellor of the Exchequer
 HM Treasury
 Parliament Street
 London SW1

7 March 1980

Dee Seamy

I am now able to send the fuller reply to your letter of 28 January as promised in my letter of 13 February.

I, too, am strongly inclined towards the market philosophy approach; indeed, the possibility of auction licensing was raised by me when the collective discussion of Seventh Round arrangements took place last October. But I must also attach a great deal of importance to the contribution of small UK companies; to ensuring that UK industry continues to obtain full and fair opportunity to compete for offshore orders; and to securing the pattern of oil disposal best suited to our needs. Our present licensing policies have given strong support to these matters, and in my judgment such support should continue.

It is right that alternative methods of licensing should be examined. I have, therefore, given further detailed consideration to cash bidding for licences and I attach a note (Annex 'A') on the advantages and disadvantages we see. I remain firmly of the view that there is nothing in the competitive cash bidding system which in any way assists the achievement of our licensing policies. Money would become the paramount, and indeed often the sole determinant in deciding which companies got licences. The change would risk our full and fair opportunity policy for British industry, and our efforts to influence oil disposal patterns (the companies would quickly realise there was no need to pay regard to such matters, if the cheque book could override any deficiency in performance). It would also sacrifice the efforts we have put into convincing foreign companies of the advantage of bringing British companies into their applicant groups. These efforts, which now seem to be bearing fruit, were initiated following the discussion at 'E' Committee in which much emphasis was rightly placed on the need to obtain a substantial British share in the Seventh Round.

I am now satisfied that a more intensive examination of the matter would not produce a fundamental shift of the argument, and I would be seriously concerned about the delay which such an examination would cause.

I entirely accept the need to examine possible means of obtaining early revenue for the Exchequer, and I have looked for alternatives which do not run into the same objections as cash bidding systems. Such a scheme (the 'additional cash bonus' scheme) is outlined in Annex 'B'.

-2-

The essential feature is that the present basis of licensing would remain unchanged, so it would be possible to maintain support for other UKCS policies. The scheme would, however, incorporate much higher initial payments for some blocks, that is those which the companies select in the mature areas of the northern North Sea, where they will have unrestricted freedom of choice in applying for blocks. The companies have welcomed the idea of an 'own choice' area and we think that a price of £4 million per block (ie the approximate cost of one well) would be a reasonable sum to test the seriousness of their interest. The 'additional cash bonus' scheme would have disadvantages. Less money would be available for exploration elsewhere, and some small British companies, including those new to offshore exploration, would have to re-think the level of their involvement in the Seventh Round. For that reason it is essential that the blocks outside the 'own choice' area should not require substantial early payments. The licensing of these blocks is of great importance to our exploration strategy.

I cannot pretend that I am enthusiastic about this scheme, given that it may adversely effect the level of British involvement. But it would be much less harmful than cash bidding arrangements would be.

There is a further matter for concern, and that is the size of the Round. Over the past few months I have had the benefit of discussions with oil companies, with the industry's representatives (both of the large and the small companies), and - perhaps more important - with independent analysts. Everything I have heard reinforces my belief that the Round is too small, and that it has, consequently, brought into question the seriousness of our declared intention to increase the rate of exploration. We need to initiate that exploration now to find the oil we will need in the 1990's, and every delay in increasing the rate of exploration increases the likelihood of a shortage of our indigenous oil supplies from the end of this decade. The slippage in the Seventh Round timetable means that the provision of new exploration opportunities has become more pressing. It has always been unlikely that significant quantities of oil would be produced from Seventh Round licences before 1990, but in any event, we have powers to delay the start of production from these licences.

The suggestion has been made that a larger Round might merely provide more blocks for foreign companies. This would not be the case because, as already mentioned, these companies are known to be responding to our encouragement to include a sizeable British element in their application groups; and - provided we retain the present form of licensing - full weight can be given to this factor.

I believe the case for a Round larger than 70 blocks is compelling. If we adopt the additional cash bonus scheme referred to in paragraph 5 it is important that we should be able to benefit from the total cash available from such bonuses, without prejudicing the award of blocks of my own selection. The latter are relevant to the strategy of gradually extending exploration and particularly of encouraging companies to move into deeper waters. This points to the need for a more flexible approach to the number of blocks for which licences will eventually be awarded. I have planned to put up about 70 specified

-3-

blocks on the basis of experience which suggests that 40 to 50 of these will attract applications. I now propose that we should plan the Round on the basis of licensing as many specified blocks as are applied for by competent applicants, but that we should defer any decision on how many blocks the licence in the 'own choice' area until we have had a chance to consider the applications. It is possible that this could result in a total of more than 70 blocks being awarded, but the additional awards would give us the benefit of extra exploration, more opportunities for groups including small British companies, and available extra cash from the additional blocks.

In summary:

(a) I remain of the view that we should proceed on the present basis of licensing, as agreed by 'E' Committee last October;

(b) Recognising, however, the pressing need for early money, I would be prepared - if our colleagues agree this is essential - to impose a much larger initial licence payment provided

(i) it is limited to the blocks in the company 'own choice' area, and

(ii) a more flexible approach is taken on the size of the Round.

You will see from Annex 'B' that we believe we might secure revenue of perhaps £80 million to £100 million in the Financial Year 1980/81, from larger initial licence payments. Clearly the timing of the receipts depends very much on how quickly we can resolve this matter, and complete the outstanding preparations for the Round. Moreover, the delay that has resulted from considering these options affects not only the announcement of the Seventh Round but also the general momentum of exploration. Accordingly, I think it is vital that we now reach an early decision on this licensing round.

Copies of this letter go to 'E' Colleagues, to the Secretary of State for Scotland, Sir Kenneth Berrill and to Sir Robert Armstrong.

Howell

Howell

D A R Howell

THE ADVANTAGES AND DISADVANTAGES OF A COMPETITIVE CASH BIDDING SYSTEM

Under the present proposals for the Seventh Round, the initial payment made by companies on grant of licence would (as in previous Rounds) be fairly small: £250 per square kilometre, or £62,500 for an average size block.

The introduction of cash bidding (similar to the 'closed tender' system used for a few blocks in the Fourth Round) would obtain an increased amount of money paid on grant of licences. The method could be applied to all blocks on offer, or some only of the blocks. This note sets out the advantages and disadvantages of such a system, as compared with the present form of licensing.

The advantages of the competitive cash bidding systems are that (i) they bring in money at an earlier date; and (notwithstanding that at the end of the day a substantial proportion of the early revenue would be offset by lower tax receipts) some extra revenue; (ii) they encourage companies to support their own estimates of the prospectivity of UKCS territory with their own cash. However, there could be a disadvantage here if more detailed studies and the competitive situation caused companies to become less enthusiastic about committing manpower to prepare applications for some blocks.

The disadvantages of competitive cash bidding systems are:

- a. there can be no certainty that parent companies would increase their UK subsidiaries' exploration budgets to compensate for cash premia paid, and there may be a reduction in overall exploration effort. This would undermine the policy of encouraging thorough and widespread exploration to identify fully the oil and gas resources on the UKCS.
- b. Cash bidding arrangements would severely limit the ability of the Secretary of State to award licences to any but the highest bidder. Although the Secretary of State could in theory accept or reject bids, money-in-hand is bound to be paramount in assessing applications and any divergence from this position would need to be defended before the Public Accounts Committee, and elsewhere. In particular it would be much more difficult to secure by administrative means that British interests, and small developing British firms, get a fair share of licences. There are also other considerations in

licensing such as affording UK suppliers a full and fair opportunity to compete for offshore orders, and disposal of any oil found in a way to assist our security of supply. Companies are presently unwilling to risk the possible denial of future licences by uncompetitive performance on such matters. The introduction of cash premia would reduce (and perhaps remove) Ministerial influence gained through this feature. A substantial amount could be at stake; for example in 1978 British companies obtained 66% of the offshore orders placed, worth in total about £1.6 billion. Prior to the introduction of the full and fair opportunity policy, with its supporting licensing criterion, the British share was about 25%.

c. The differing tax positions of applicant companies would enable some companies to make higher cash bids with corresponding tax offsets and make a fair process of comparison very difficult. The disallowance of cash bids from PRT and Corporation Tax assessment could be achieved but it would require legislative changes which could not be introduced in time for the Seventh Round. It would naturally also reduce the amount of money bid by tax paying companies. Even so, it would not entirely remove unfairness from the process of comparison, as foreign companies might still be able to set off losses incurred in the UKCS against their domestic tax position; the unfairness might thus transfer from companies not presently paying tax on the UKCS, to British companies.

d. Because of the need to formulate suitable arrangements, to study the tax implications, and to consult with the industry on these matters, licences would not be awarded in the Financial Year 1980/81, and the rate of drilling activity in 1981 and 1982 would consequently be reduced.

e. Small companies would be put at a severe competitive disadvantage: the majority of British companies fall into this category. In addition, the encouragement which Government Ministers have given to companies outside the oil industry to participate in UKCS exploration (which has been most effective and has set at a high level expectations for a significant British interest in the next Round) would be put at risk. Such companies would certainly re-appraise their planned involvement. Some would withdraw, and some would reduce their proposed investment.

It is noted above that the main advantage of cash bidding is that it would bring in early money, but not in the Financial Year 1980/81. There can be no certainty about the level of response to a 'cash bidding' Round, and no realistic assessment of the sort of sums companies might be prepared to bid. Any estimate of total revenue would therefore be entirely speculative and inevitably misleading.

PROPOSED SCHEME FOR OBTAINING SUBSTANTIAL EARLY PAYMENTS FROM THE
GRANT OF LICENCES (THE 'ADDITIONAL CASH BONUS' SCHEME)

This note sets out the outlines of a scheme for combining the present licensing method - and its support for UKCS policies - with a means for obtaining more substantial payments on the grant of licences; and considers the advantages and disadvantages of such a scheme.

OPTIONS FOR THE SCHEME

2. The Gazette notices inviting applications for licences include (inter alia) details of the initial payments licensees must make immediately on grant of licence. Hitherto these payments have been set at a low level to ensure they do not discourage applications; instead the main financial requirement from licensees in the early years of the licence is expressed in terms of ^{an} agreed exploration programme. The proposed initial payment for Seventh Round licences - as agreed with Treasury officials - is £250 per square kilometre in the licensed area (£62,500 for an average size block). This proposed payment is significantly higher than the initial payment for Sixth Round licences.
3. It would be a simple procedure to revise the initial payment so that a much more substantial payment was imposed on the grant of licence: it would be necessary only to stipulate the details of the payment in the Gazette notices.
4. There are several possibilities for deciding the application of a more substantial payment. It could be the same for all blocks licensed (this would increase the risks of potential applicants being discouraged from applying for any but the very best blocks); or it could be based on the acreage of the block (however the prospectivity or attractiveness of a particular block is not in general related to its size); or it could vary from geographic area to area; or it could be applied to one discrete category of blocks only.
5. The payment would have to be set at a level (or levels) which did not discourage applications, and in particular did not deter the smaller British exploration companies, and non-exploration companies new to the UKCS. The level would necessarily have to be assessed on an arbitrary basis, as there is no empirical evidence on which to rely.

A POSSIBLE SCHEME

6. The arrangements might be as follows:

- a. Licences for some, but not all, blocks would be offered on the basis that a more substantial initial payment (an 'additional cash bonus') would be required on grant of licence.
- b. The blocks to which the additional cash bonus would be applied would be those in the area of the companies' 'own choice'. This is a discrete category, and given the industry's welcome of the 'own choice' concept, it seems less likely to discourage applications than would the imposition of an additional cash bonus elsewhere on the UKCS.
- c. The additional cash bonus should be the same whatever the size of the block. Some blocks in the discrete area are very small (they vary from under 10 square kilometres each), and it has to be recognised that the one rate of payment may deter applications for these ^{small} blocks: however, only experience can tell how significant this factor will be overall.
- d. The additional cash bonus might be set at £4 million, which is the approximate cost of a well in the North Sea. The figure is assessed on the basis that applicants would expect to have to offer to drill at least one well to obtain the licence.
- e. Companies would additionally be required to drill at least one well to earn the right to continue the licence after the initial term, which would probably be of six years' duration.

ESTIMATE OF INCOME

7. It is difficult to assess with real confidence what the level of response would be for blocks to which a price tag of £4 million is attached. Companies have, however, welcomed the concept of an 'own choice' area in the northern North Sea, and it seems unlikely that the larger companies will be entirely discouraged by the price tag. We think it not unreasonable to assume that applications would be received for perhaps 20-25 blocks in the 'own choice' area, producing revenue of £80 million to £100 million. If more blocks were awarded from the area, the amount would of course be higher.

3. Provided that decisions can be taken fairly soon on the definitive arrangements for the Round, the licences should be granted and the payments accordingly received, in the Financial Year 1980/81.

ADVANTAGES AND DISADVANTAGES OF THE 'ADDITIONAL CASH BONUS' SCHEME

9. The advantages are:

i. It would bring in more money at an early date than would the present form of licensing with fairly low initial payments.

Because the scheme could be readily grafted onto the Seventh Round preparations, the money should be available in the Financial Year 1980/81.

ii. It would avoid constraints on Ministerial support for other important UKCS policies.

10. The disadvantages are:

a. The scheme could reduce the exploration effort; and

b. Small British companies, and those new to the UKCS, would be at a disadvantage in trying to find the money for the 'additional cash bonus' (but there should be adequate opportunities for them outside the 'own choice' area).

However, these disadvantages would be far less substantial than with cash bidding.

-7 April 1980



cc/AD



Energy

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ 211 6402

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1

13 February 1980

Dear Sir

12.18.80

Thank you for your letter of 28 January 1980.

I recognise the importance that must be attached to the consideration of possible means of raising additional revenue. I have, therefore, instructed my officials to examine this further in the context of the Seventh Round.

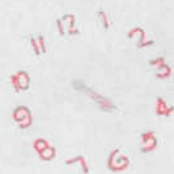
I will let you, and our colleagues, have a full reply on this matter when that study has been completed.

Copies of this letter go to members of 'E' Committee and to Sir Robert Armstrong.

D A R Howell

Yours
DAR

13 FEB 1960



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To note: this issue will come to E.

Treasury Chambers, Parliament Street, SW1P 3AG
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David

AUCTIONING OF SEVENTH ROUND OIL LICENCES

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Thank you for your letter of 18th January about your preference for running the Seventh Round of oil licences under the present discretionary system.

I am not at all convinced that a case has been made out for allocating the Seventh Round licences under the present system. Certainly no-one is suggesting "introducing change for change's sake", as you suggest in the fourth paragraph of your letter. But I think that many will argue that this Government's approach should be to rely on the market place rather than on administrative discretion. I am also bound to attach importance to means for raising additional revenues at a time when colleagues are being asked to make difficult decisions on public expenditure. It may well be that the amounts of money at stake are not large - presumably we will only discover this by having an auction - but auction licensing does have the advantage of enabling the Exchequer to benefit earlier.

I should therefore be grateful if you would circulate a paper to colleagues on the question of auctioning the Seventh Round licences so that we can come to a collective view. I think that it would be helpful if officials could have the opportunity to discuss the draft paper before it is circulated.

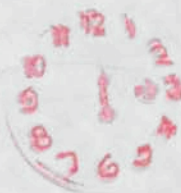
I am sending a copy of this letter to members of E Committee and to Sir Robert Armstrong.

Geoffrey Howe

(GEOFFREY HOWE)

The Rt. Hon. David Howell, MP

29 JAN 1980



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SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
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Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
LONDON SW1

18 January 1980

Dear Sir

Thank you for your letter about auctioning of oil licences.

Although a meeting of 'E' Committee is not scheduled to consider further the Seventh Round of Licensing, I had intended to inform colleagues of the definitive arrangements for the Round once the necessary consultations with the industry and other interests had been completed.

The idea of cash bidding has been publicly aired; I am discussing it with the industry and I shall be very willing to discuss the matter with colleagues. However, I think it would be helpful for colleagues to know that the industry has already made clear its intense dislike of any cash bidding arrangements. More important still, the small British companies have made a particularly strong plea that such arrangements would badly affect their competitive position and reduce significantly their ability to participate in UKCS activities.

But over and above these perhaps, predictable views, there is the general question of how we treat companies in UK waters. In the end there are only a limited number of golden eggs from the goose. Do we best get them by stable and well tried methods, or by changing the regime? The idea that there is a large extra amount of money to be extracted from the oil companies is, I believe, misconceived. Auctions might get the Government's share of revenue in different ways, but might also place other North Sea policies at risk. My view is that before introducing change for change's sake we should think very carefully indeed.

From this you will have gathered that whatever we may decide on the principle of cash bidding, my preference is to complete the Seventh Round under the present system which is recognised and understood by the industry.

Finally, I should say I very much doubt whether a realistic estimate could be made of potential proceeds from cash bidding for licences. The only UK experience was long ago - in 1971 - and in very different circumstances, and recent American experience cannot be directly translated to our Continental Shelf.

I am sending copies of this letter to Members of 'E' Committee and Sir Robert Armstrong.

D A R HOWELL

Yours,

David

118 JAN 1960





Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

December 1979

David Howell

THE AUCTIONING OF NORTH SEA OIL LICENSES

There was some discussion at E(DL) Committee on Wednesday about the possibilities for auctioning the licenses in the North Sea Seventh Round and in my summing up I said that this was a matter which could be considered separately in due course by E Committee.

E Committee is not in fact due to consider again the Seventh Round and I am therefore writing to ask that you should give colleagues the opportunity to consider the case for auctioning Seventh Round licenses before final decisions are taken.

I hope that you can give some estimate of the proceeds from any auction since they could provide a helpful contribution to reducing next year's PSBR.

I am sending a copy of this letter to the members of E Committee and to Sir Robert Armstrong.

GEOFFREY HOWE

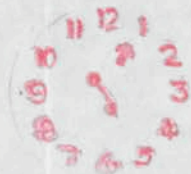
The Rt. Hon. David Howell MP.

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2 JAN 1980





SECRET

Prime Minister Energy 3

There is also a CPAS paper in this folder which you have not seen.

Ref. A0475

PRIME MINISTER

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Seventh Round of Offshore Licensing
(E(79) 53, 58 and 59)

When you have read this brief you may decide to postpone this item.

BACKGROUND

(a) Procedure

The Committee decided in July to postpone a decision on the size of the next licensing round until the review of depletion policy, then in progress, was complete. (The issue was also tangled up with the problems over the future of BNOG, and the related sale of BP shares, but it was doubts over depletion which really led to the reference back).

2. The Secretary of State for Energy has now come forward with revised proposals (E(79) 53) which, because of the delay, have in his view become urgent. His plan requires an early announcement, a period of consultation, a pause for preparation of applications, time for consideration, and issue of new licenses next August so as to allow oil companies to start drilling seriously in the summer 1981 'weather window'. He has also circulated the completed report on depletion policy (E(79) 38) which, if the Committee was right in its fears last time is essential background to the licensing decision. But, decisions on depletion policy generally, though desirable, could be postponed without damage. No announcement on depletion policy is needed till next spring, and for international reasons it would be preferable not to make one till then. (Recommendation xvii of Depletion Report).

3. However, the Bank of England threw a large spanner into the works late last week. They pointed out that the prospectus for the sale of BP shares includes a statement (text at annex) about Government depletion policy which could, of course, affect the future profits of BP and thus the sale price. That statement would be invalidated if the Government decided on or announced a fresh

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policy. Once the Bank had raised the point the Chancellor immediately consulted the Attorney General, who will attend for this item and explain the problem. (He also hopes for a private word with you first if time permits.) His advice is that the Government must take no new decision and make no announcement about depletion policy in the next few weeks. Otherwise there is a risk that the sale will fall foul of Stock Exchange and SEC requirements. Essentially the prospectus would amount to misrepresentation which would invalidate the contract at civil law. Moreover the officials concerned with the BP sale could risk criminal prosecution for failing to disclose relevant facts in the offer document. (This is why it was the Chancellor, who is answerable for the BP shares, who consulted the Attorney General.) But the Attorney General is satisfied that Ministers can go ahead and discuss the licensing round provided that:

- (a) the depletion report is regarded as background information only, no decisions are taken on it for the time being and no substantive discussion is minuted;
- (b) the report itself and covering paper is limited in its distribution and classified secret; (it had already been circulated but all copies are being withdrawn except from Ministers attending the meeting and the classification upgraded).
- (c) He is allowed to attend the meeting to explain the problem, without however being recorded. (Even this brief should be seen only by those who 'need to know').

4. On this basis, and because of the reported urgency of decisions on licensing, we have put the item on the agenda. It is however fourth, in a busy and difficult meeting. You could allow it inconspicuously to be crowded off the end; or you could decide now to take it off (in which case I can stand down the various invitees). I should welcome instructions before the meeting. The rest of this brief assumes that we go ahead.

Development



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(b) Substance

5. The main features in the Secretary of State's paper are:

- (i) a 100-block licensing round (twice as big as the last one);
- (ii) No oil flow till 1990, when on present depletion policy we shall be over the production hump and looking for more supplies. (This is why he argues depletion policy is not relevant.)
- (iii) 20 out of the 100 blocks in deeper water - thus postponing oil flow still further because of technical difficulties.
- (iv) A bigger United Kingdom private sector stake to take up the slack left by a smaller BNOC interest.
- (v) (Optional) a statement on longer-term licensing intentions, pointing to further big rounds annually.

6. By contrast, the CPRS (E(79) 59) argue for a 70-block round; they believe that the level of activity is picking up again, thus adding to the peak production problem, and that if existing depletion controls were properly applied, production could be postponed into the 1990s and the need for a big new licensing round reduced. This emphasises the extent to which licensing and depletion go together. We have put this point to the Attorney General's staff, who confirm that nevertheless his original advice can stand.

7. There are also a number of other second-order problems, but the key issue for the Committee, either this week or later, is the choice between a 100-block round and a 70-block round.

HANDLING

8. If this item goes ahead at all, I think you should ask the Attorney General to speak first, to explain the legal problem, and to lay down the limits within which discussion can take place. If he does not volunteer an answer you might ask him when the Government can safely consider depletion policy. You might also ask the Secretary of State for Energy to explain the reasons why a decision on the seventh licensing round has to be taken in advance of the Attorney General's safe limits for a discussion on depletion policy.

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9. The Secretary of State for Energy could then introduce his paper, followed by the Chancellor of the Exchequer, and Sir Kenneth Berrill. Other Ministers with a particular interest are the Secretaries of State for Scotland, Industry, Employment and Trade (shipping interest); the Foreign Secretary (EEC aspects); the Minister of Agriculture (fisheries interest); Secretary of State for Defence (restrictions on certain blocks).

10. The main issues which arise on licensing are these:

- (a) The need to restore momentum - which Mr. Howell uses (paragraph 3) as his main argument for a bigger round. It has two aspects: the 'right rate' of activity (i. e. depletion policy weighed against all other considerations) and the more political argument 'of making clear our determination to restore the momentum'. The second is a rather shaky argument if the facts justify rather slower momentum. Does the Committee really believe it is essential to restore momentum? If so, why?
- (b) Demand - The underlying assumption seems to be that United Kingdom demand for oil will be between 92 and 100 million tonnes in 1985 and 91-108 million tonnes in 1990 (Fig. 2 of the Depletion Report). These numbers are based on earlier economic forecasts and for 1985 at least are now probably on the high side. Is it wise to base the case for a big round on these forecasts?
- (c) United Kingdom production from present licenses. Fig. 2 shows that existing and prospective finds from present licenses produce a bulge over the central demand forecast until 1988. On the lower demand forecast the crossover point is almost 1990, even on the central production forecast. Activity has picked up again this year; present licenses may actually keep us in net balance another year or two. Does this too point to a smaller round?
- (d) The need for self-sufficiency. The crossover point is a bit bogus anyway. For reasons of refinery balance we shall always be a gross importer even when in a net export surplus. This alone makes our supplies a little insecure, physically and politically (see paragraphs 15-18).



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In economic terms what matters is the net balance on oil account. Whether this should be positive or negative depends on the overall balance of payments position at the time. The depletion report sets out quite well (paragraphs 22-27) the macro-economic case for a flatter depletion rate, and paragraphs 19-21 imply that the rate at licensing is the most effective control available - it involves a smaller economic cost than production cutbacks. Does trying not to exceed a self-sufficiency target justify accepting economic penalties?

- (e) The needs of industry, regional employment, etc. Some Ministers may argue that these alone justify a faster rate of development. However, the offshore industry is already past its peak of activity and has got to run down further eventually. It may not be sensible to re-expand it artificially and temporarily. The new licenses would not affect activity until 1981.
- (f) Effect on other interests: defence, fisheries, environment. The new provision for consultation within and outside Government seems adequate. You may want to discourage too much special pleading at this meeting. It should be reserved until the 'shopping list' of potential blocks is available.
- (g) EEC aspects. We know of no difficulties but you should ask the Foreign Secretary to confirm.
- (h) Future rounds. Whatever the decision about this round, the Treasury will probably suggest that there is no need for the Government to commit itself now on the size of future rounds. On the general principle that one does not needlessly close off options before one has to this would seem sensible.
- (i) BNOC involvement. It seems entirely consistent with the decisions Ministers have already taken that BNOC should undertake much less exploration and development, but should nevertheless retain an option over part of the oil. This would be a condition of the license from the start, and thus quite different from the rather more dubious, and retrospective, 'participation deals'.

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CONCLUSIONS

11. The conclusions required are:

- (i) To agree that the next licensing round should consist of approximately 70 / 100 blocks and should proceed on the timetable set out in E(79) 53 with a statement on the lines of the annex to that paper but without the reference to future licensing rounds in paragraph 2 of that statement.
- (ii) To agree to consider the Depletion Report (E(79) 58) at a later meeting you should not, for the reasons stated, record any decision on depletion policy as such.

M.H.

PP

(John Hunt)

22nd October, 1979

EXTRACT FROM DRAFT PROSPECTUS FOR SALE OF PART OF HMG'SHOLDING OF SHARES IN BP

All the above reflects the statement by the Government on Friday 29 June 1979* that in applying depletion policy to discoveries made on first to fourth round licenses, it will be guided by the assurance given in December 1974 by the then Secretary of State for Energy. Depletion policy will, of course, continue to be kept under regular review like all other Government policies.

Notes:

1. * Hansard Col 350 Mr Hamish Gray to Mr Skeet.

2. The present timetable assumes that the Chancellor will agree the sale price with the Prime Minister on 30 October; announce this on 31 October, issue the prospectus on 2 November; applications will close on 9 or 10 November.



Energy
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MS

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ 211 6402

Rt Hon George Younger MP
Secretary of State for Scotland
Scottish Office
Whitehall
London SW1A 2AU

3 August 1979

Dear Sir

FUTURE OFFSHORE LICENSING

Thank you for your letter of 27 July on this subject. I am glad to have your support on the need for ensuring an adequate level of exploration of our UKCS resources and to learn that you are in broad agreement with my proposals.

I suggest that, not only the questions of existing licensed territory being thoroughly explored and of fisheries, but also the size of the Round and the BNOIC implications mentioned in your letter, would be suitable subjects for study by officials in the first instance. My officials have already been in touch with yours and the intention is that there will be detailed discussions over the coming weeks with a view to resolving any differences between the two Departments. Parallel discussions will be proceeding with other interested Departments at the same time and I have in mind that, when officials have concluded their deliberations, I will put a further paper about Seventh Round licensing to our colleagues for consideration.

I am copying this to the Prime Minister and to other recipients of my minute to her of 20 July on future offshore licensing.

Yours sincerely

DAR

D A R Howell

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Energy NPM
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SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU 30/vii

Rt Hon David Howell
Secretary of State for Energy
Thames House South
Millbank
LONDON

27 July 1979

FUTURE OFFSHORE LICENSING

Thank you for copying to me your minute of 20 July to the Prime Minister outlining your proposal on offshore licensing in order to restore the momentum of exploration and to encourage the greater involvement of the private sector.

I, of course, fully support the need for ensuring that an adequate level of exploration of UKCS resources is maintained. This is essential if these resources are to be developed to the full. I am therefore in broad agreement with your proposals though I would suggest that officials might explore further whether more might not be done to encourage companies to explore their existing territory more thoroughly.

As regards the implications for Scotland there are two points I wish to stress. The first is that, energy and revenue aspects apart, these offshore resources are vital to us for the onshore employment which they bring. If that employment is to be sustained it is necessary that the offshore activity should be at just the right level, neither too little or too infrequent nor too much. A sudden rush of licensing could mean orders which the UK onshore industry - and of course this interest does indeed go beyond Scotland - was unable to handle, with the result that this work would go abroad and in the bygoing would strengthen foreign competition. It could be that an award of 100 blocks every 18 months could create this damaging situation and I am therefore encouraged by your promises viz "about 100 blocks" and "every 18 months or so". I assume that this means that you are prepared to adjust the rate in the light of offshore and onshore circumstances.

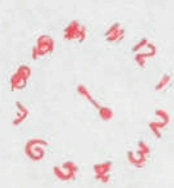
On this question on the scale of impact I take it that you are satisfied that the offshore industry could absorb both a Seventh Round of the dimensions proposed and a possible reassignment of BNO's Fifth and Sixth Round Licenses as discussed in B(DL)?

My other major interest is in the impact on the fishing industry. As you will know, the industry has already made strong complaints that oil activity has been damaging to its livelihood and indeed we know that the industry is totally opposed to any further licensing in areas which are of interest to oil companies. It is therefore essential that the interests of the fishing industry be taken into account and that industry representatives be consulted on those areas to be licensed. I suggest that adverse criticism could be lessened if these points were made more explicitly in your statement. Further, I think that the fishermen will express particular anxiety over the proposal that companies explore blocks of their own choice. Fishermen know, for example, of oil companies keen interest in the Moray Firth, an area which is also very important for fishing. Consultation after applications have been received is unlikely to assuage this concern, as experience of possible oil activity in Firth of Forth has demonstrated. I would hope, therefore, that our officials could get together in advance to determine the general areas where uninvited applications would be appropriate.

I am copying this letter to the Prime Minister and to the other recipients of your minute.

(Approved by the
Secretary of State and
signed in his absence)

30 JUL 1979



OIL POLICY

3.56 p.m.

The Secretary of State for Energy (Mr. David Howell): With permission, Mr. Speaker, I will make a statement about the Government's oil policy and the British National Oil Corporation.

The Government have reviewed the full range of the BNOC's activities. They have also had much in mind the serious decline in offshore activity.

After discussions with the chairman and the BNOC board, the Government have concluded that BNOC can best serve the nation's interests in a continuing but much more limited role than at present, and that the pattern of ownership of the Corporation's assets, at present exclusively in State hands, should be changed.

The House will be aware that the BNOC is engaged in two main activities. It is an oil trader on a large scale, mainly by virtue of its right through participation agreements with other oil companies to purchase 51 per cent. of most of the oil produced on the United Kingdom continental shelf, and it is a substantial enterprise in the North Sea, engaged in exploration, development and production.

As far as the trading activity is concerned, the Government have decided that the Corporation's access to oil through the participation options should be retained. Although, in conditions of major shortage, I can take powers under the Energy Act 1976 to control and direct oil movements, in conditions of limited shortage, such as we are now experiencing, BNOC's direct access to "participation" oil, together with royalty oil, strengthens our position. Of course, quantity of oil, and thereby security of supply, also depends on economical pricing, and that is why we have removed the price controls which we inherited.

As to BNOC's offshore assets and interests, the Government believe that those should be more widely owned. This objective can best be achieved through the disposal of assets from State hands or by the introduction of private capital into the operation. I will be making a further announcement in due course on this.

Furthermore, the Government have decided on a number of steps in the area

of BNOC's exploration, development and production activities. The corporation has too many licence obligations and commitments, along with a number of privileges vis-à-vis other oil companies. These features are themselves a source of the instability and lack of confidence that have come to characterise the offshore oil exploration scene—which it is essential for us to change.

The Government have decided, therefore, that BNOC's preferential position in future licensing rounds should be ended and that its present over-extended exploration commitments should be reduced. The Government also intend to end BNOC's special access to Government finance through the national oil account. These changes follow the Chancellor's announcement that BNOC will be liable to petroleum revenue tax in common with other oil companies, and my announcement ending the previous policy of giving BNOC a first refusal whenever an interest was assigned between companies on the North Sea. I have also decided that the Corporation's statutory role as adviser of the Government should be removed, and that the Corporation should no longer sit on every committee operating the North Sea fields where it has no equity stake. I shall be strengthening my Department's resources so as to ensure that the Government, in the exercise of their regulatory role, are fully able to protect vital national interests.

Some of the changes that I have outlined will require legislation, which will be introduced later in the Session.

The moves announced today will in themselves encourage companies to explore more widely and to invest more confidently in development. We must encourage more investment both in drilling on already licensed territory and in deeper waters on the United Kingdom continental shelf. Our decision to examine with the industry the problems of the so-called marginal fields should also be of positive help.

In addition, I am today confirming the first batch of awards of licences under the sixth round, and the announcement of further awards will follow shortly. I am also well advanced with the preparation of the seventh round of licensing.

I believe that all this will make a major contribution to restoring a high level of

Mr. St. John-Stevás: I hope that, a reasonable time after we return from the recess, we shall have a debate on that subject.

Several Hon. Members rose—

Mr. Speaker: Order. There are two statements to follow business questions, but since this is the last day, I will call those hon. Members who have risen, if they will co-operate by asking brief questions.

Mr. Ioan Evans: Has the right hon. Gentleman seen the report of the serious allegation made by Eschel Rhodie—who was involved in the Muldergate scandal—that Members of Parliament are financed by the Pretoria Government? May we have a statement as soon as we resume on an investigation during the recess into these serious allegations?

Mr. St. John-Stevás: Of course I am always concerned with any matters that reflect on the good name of hon. Members, but I have learnt that one should not take as facts allegations that are unsupported by evidence.

Mr. Bidwell: Will the right hon. Gentleman avoid making his holiday arrangements too far in advance, since, because of the Government's extremist policies, there will be demands from the public and from hon. Members for the recall of Parliament long before 22 October?

Mr. St. John-Stevás: I am grateful to the hon. Member for that advice but, unlike him, I have so far made no arrangements for the holiday.

Mr. Flannery: From his undoubtedly profound inner knowledge, will the right hon. Gentleman enlighten us about the character of the package of goodies that his Government will unleash on an unsuspecting British public in the recess, while we are not looking?

Mr. St. John-Stevás: I do not know quite to what the hon. Member is referring, but if he has in mind certain reports of cuts in Government spending, I would

only say that if the British public are unsuspecting they must be deaf, dumb and blind.

Mr. Dubs: Will the right hon. Gentleman consider the difficulties that often face the House when we have long and complicated ministerial statements after Question Time, particularly when they deal with reports such as the recent one by the Royal Commission on the National Health Service? I know that some hon. Members can ask searching questions about reports that they have not read, but that is not a gift that all of us have. I wonder whether we could have a better arrangement, so that we have the reports some time before the ministerial announcements.

Mr. St. John-Stevás: I appreciate the point, which in an ideal world we could no doubt realise, but even more important is that, when important decisions on policy have been made by the Government, the House should be informed as soon as possible.

Mr. Greville Janner: As so many of the feared reductions in the facilities for the elderly, the sick and the disabled will take place during the next three months, may we at least have the assurance that there will be an early debate on these sad matters as soon as possible after the House returns?

Mr. St. John-Stevás: I hope that the hon. Member's fears will not be realised, so the need for a debate will not arise.

Mr. Foulkes: Following the previous question, by the time that we return from the so-called "Summer" Recess it will be very cold, at least in my part of the country. Therefore, what arrangements will be made for the Secretary of State for Energy to make a statement about the extension of the fuel discount scheme and for the Secretary of State for the Environment to make a statement about the insulation scheme before we return?

Mr. St. John-Stevás: I shall convey those views to my right hon. Friends concerned.

expertise within the BNOG have been unable to give to each operating committee the amount of time that would be correct and justifiable?

Mr. Howell: I strongly agree with my hon. Friend's analysis of the present position.

Several Hon. Members rose—

Mr. Speaker: Order. I propose to call two hon. Members before we move on to the next statement.

Dr. M. S. Miller: Will the Secretary of State satisfy me on one point? He seems to be stressing that the major surgery that he is about to embark upon—I remind him that sometimes patients die after they have had major surgery—will somehow encourage more exploration in the North Sea. Is he therefore saying that the best way of finding more oil in the North Sea is to keep drilling holes in the seabed instead of taking scientific geological surveys and examining the situation and then boring the holes in the reasonable way in which the BNOG has in the past?

Mr. Howell: The geology of the North Sea is very difficult. It is not always possible by geological surface assessments to locate pockets of oil under the cap of the continental shelf. The search for oil therefore requires extensive drilling over wide ranges of North Sea acreage. I think that my statement today will encourage that. It will also encourage further drilling on territory that is already licensed.

Mr. Ioan Evans: Under this Government the price of a gallon of petrol has risen from 80p to £1.20. Does that not mean that there will be tremendous profit in the exploitation of North Sea resources? Should we not therefore be increasing public participation, especially since four public industries have recently reported profits totalling £1 billion? Could not that money be invested in the North Sea to ensure that the British people get the maximum return? Does the right hon. Gentleman recall, in history, the South Sea Bubble? Is this not the North Sea Bubble?

Mr. Howell: I think that both sides of the House recognise that we have a sensible and fair tax system for North Sea oil production. I think that that is

recognised also by foreigners who come here. The profits that remain after taxation provide the impetus that goes into investment in North Sea energy resources, which will secure those resources for ourselves, our children and our children's children.

CIVIL SERVICE (DISPERSAL)

The Minister of State, Civil Service Department (Mr. Paul Channon): With permission, Mr. Speaker, I wish to make a statement.

On 11 June the Government announced that they were going to review the programme of Civil Service dispersal. The Hardman report of 1973 had produced three possible options. Our predecessors then produced a plan which was significantly from any of them.

When we came into office we found that it was proposed not only to disperse a further 21,000 Civil Service posts from London but 4,000 from such places as Harrogate, Bath and Didcot. Such dispersal moves from places outside London were never suggested in the Hardman report and it is impossible to see the justification for them. The present programme would cost over £250 million during the remainder of the present public expenditure survey period to 1983-84, and we should be well into the 1990s before the benefits from dispersal began to offset the costs.

Whilst I recognise that in the assisted areas the dispersal programme has been viewed as an important element in improving employment opportunities, nevertheless some of the important considerations which led to the setting up of the Hardman study no longer apply. In 1973 the Civil Service was expanding and the Government faced the prospect of providing more offices at high London rents. The Government intend to reduce the size of the Service. Moreover, the gap between office rents in London and in the provinces has substantially narrowed and the long-term financial benefits of moving people out of London are that much the less.

Having considered all these factors, the Government have reached the following conclusions. Three moves already in progress should continue. These are the moves of the Manpower Services Commission to Sheffield, the Export Credits

[Mr. Channon.]

Guarantee Department to Cardiff and the Council for Small Industries in Rural Areas to Salisbury involving a further 2,600 posts. There are two further small moves which would increase the efficiency of the departments concerned at very little cost. These are the laboratory of Her Majesty's Stationery Office to Norwich and a small group of about 90 Customs and Excise staff to Southend.

The Government have also decided that some dispersal of Civil Service posts is justified to meet the particularly pressing needs of Glasgow and Merseyside. A total of at least 2,000 posts will therefore be moved to Glasgow and East Kilbride by the Ministry of Defence and the Overseas Development Administration. The Glasgow posts will be located at the St. Enoch's site. There will also be a dispersal to Bootle where there is a large building available. The full composition of this has not yet been settled but the first tranche of 250 posts will be the Home Office Computer Centre and a unit from the Property Services Agency. All the posts in the revised programme will be taken from the London area.

Much of the dispersal programme which we inherited from our predecessors has been so altered from the original aims of the Hardman report that it would have made no sense in terms of regional policy to proceed with those moves. In the light of all the altered circumstances, we have decided to proceed only with the moves which I have just announced. This will mean a saving in planned public expenditure of well over £200 million up to 1983-84.

Mr. Wrigglesworth: Will the hon. Gentleman confirm that his announcement means that the 20,000 promised jobs are not to be dispersed to the regions? Is he aware that that will cause deep bitterness and resentment in the areas that will be deprived of employment prospects that the previous Government offered to them and on which they have spent considerable time, effort and resources planning for?

Does the hon. Gentleman agree that the £200 million short-term gain that he has announced will be obtained at the sacrifice of a long-term saving of about £800 million of public expenditure, a sum that accelerates the longer dispersal takes place? Does he agree that this is another

hammer blow to the region on top of those already administered by the Government to regional policy, shipbuilding and various other areas? Is he aware that there will be sites in the areas that were to receive dispersal jobs that will be vacant for many years to come?

How much expenditure has been incurred by the Government and by local authorities in the areas where moves have now been cancelled? Will the Government pay any compensation for the large sums that have been expended by some local authorities? Is it not true that no serious consideration has been given to the real economic and social needs of the regions? Does he agree that, as with other areas of real need, they are being sacrificed on the high altar of Tory doctrine?

Mr. Cannon: With respect to the hon. Gentleman, that is exactly not so. I do not agree with what the hon. Gentleman said about a long-term gain of £800 million. That is much exaggerated. A great many of the purported gains would have come many years ahead. Circumstances have changed. The programme that I have announced will save £200 million or more in the next few years. We have done our utmost to proceed with elements of dispersal to Scotland and to Merseyside, which I hope will be of some benefit to those areas. In the present public expenditure situation, I think that I have done the best that I can to satisfy both sides of the House.

Several Hon. Members rose—

Mr. Speaker: Order. The House has seen that many right hon. and hon. Members are rising in their places to seek to catch my eye. I shall do by best, as I realise the importance of the statement. I hope that right hon. and hon. Members will co-operate by asking brief questions.

Mr. Maxwell-Hyslop: Will my hon. Friend accept our thanks for introducing a rational policy where previously there had been pre political gerrymandering, announced in some instances in written answers the day before the general election? His statement will be greatly appreciated in Devon.

Mr. Channon: I am extremely grateful to my hon. Friend. I never understood the logic that led some to say

exploration activity on the United Kingdom continental shelf after the recent very serious slow-down.

Dr. Owen: For a party that bedecks itself in the Union Jack at every opportunity, this is a miserable statement. Is the right hon. Gentleman aware that oil policy involves more than the public sector borrowing requirement? It is a vital national strategic resource—something that was recognised in this House half a century ago by a previous Conservative Leader, Sir Winston Churchill, speaking on behalf of the Liberal Party in defending the Government's role in British Petroleum.

Is the right hon. Gentleman aware that, far from reassuring the industry and creating more stability, his statement about the disposal of assets and the introduction of private capital raises more questions than it answers? How many assets does he intend to dispose of, of what value, and to whom? Will he assure the House that no foreign person or company will be able to acquire a major holding in the British national resource of the North Sea?

Will the right hon. Gentleman assure us that in raising any public capital he will not make any decision before these issues can be discussed in the House, and that he will not dispose of BP shares before these issues can be discussed?

It is not good enough, on the last day before the recess, to make a general statement in the House about the intention to dispose of or to weaken national control over a major national resource.

Is the Secretary of State aware that offering to strengthen the bureaucracy in his Department at the expense of BNO's oil men is hardly guaranteed to improve our control over North Sea oil? Does he agree that one of the vital attributes of BNO is its knowledge and expertise about exploration and development, and that that advice and knowledge should be made available to the Government? We shall oppose any legislation or action based upon his statement.

Mr. Howell: I am sorry that the right hon. Gentleman does not see fit to welcome the new impetus to restore our exploration in the North Sea, which is in the interests of the nation and of everybody who lives in it.

The right hon. Gentleman referred to the setting up of BP by the late Sir Winston Churchill. That was a classic example of the type of mixed finance which today's Labour Party is so obsessively against.

Far from continuing uncertainty, my statement will end an uncertain period that stretched back over several years. It will greatly improve the position of the oil companies and the BNO so that they can get on with their jobs without getting into each other's hair.

I cannot make a statement on the capital structure today. These are matters that are to be decided. I shall do my best to keep the House fully informed.

The right hon. Gentleman asked me about British ownership in the North Sea. The proposals will encourage more British investment in the North Sea. One of the worries about past policies was that not enough British capital was attracted into North Sea projects. The right hon. Gentleman mentioned the stronger Government regulatory role. It is the proper business of government to pursue and formulate effective policies for the North Sea. That is more desirable than relying on a large, over-extended State corporation which, in a more limited role, can play a useful part. The BNO has been allowed to become overloaded. It has become a drag on North Sea development.

Mr. Patrick McNair-Wilson: Is my right hon. Friend aware that the statement will be widely welcomed? Can he assure the House that after his discussions with the chairman of the Corporation he is satisfied that the future level of North Sea exports will be more in line with the national interest than it was under the previous Administration?

Mr. Howell: The BNO, together with other oil companies, has made changes in its export dispositions. That arose primarily from this Government's decision to get away from the labyrinth of price controls, which denied the British people a fair and reasonable share of limited world oil supplies. I believe that we shall now see a healthier development. I have discussed these matters with the chairman of the BNO.

Mr. Grimond: Does the Secretary of State agree that uncertainty will not be

[Mr. Grimond.]

removed until the legislation based upon his statement is introduced? Will he undertake to do that as soon as possible?

Will BNOC still be entitled to buy 51 per cent. of all oil produced from the North Sea if it wishes? Why should that encourage further exploration?

Mr. Howell: I am advised by many people in the oil industry and in the BNOC that my proposals will remove uncertainty and enable the BNOC and other oil explorers, developers and producers to get on with the tasks which have been held up. This is reflected in the appalling drop in the number of exploration wells. In the first six months of this year only 13 exploration wells were drilled, compared with 37 in the whole of last year and 67 in the previous year. Those figures are inadequate. I think that the uncertainty will be ended.

The participation arrangements will continue, giving the BNOC the right to buy, at market prices, 51 per cent. of North Sea oil production. That will be at market prices and therefore the oil companies must continue to accept that the BNOC is a major company. The prices determines the incentive to explore, develop and produce.

Dr. J. Dickson Mabon: Is the Secretary of State aware that his statement will be met with criticism by constituents of hon. Members on both sides of the House? Does he agree that it would be wrong to open up the BNOC to foreign penetration and that it should be reserved for British citizens? Will he consider that matter seriously?

Mr. Howell: Of course I shall seriously consider what is in the best interests of the people and the nation. I believe that as a consequence of what I have said today there will be more British investment and involvement in the North Sea.

Mr. Hannam: Does my right hon. Friend accept that his sensible statement will do much to lift the blight imposed by the previous Government upon North Sea exploration? Will he confirm that far from protecting British interests in the North Sea, the BNOC was exporting two-thirds of its oil during the recent crisis?

Mr. Howell: I am grateful to my hon. Friend. I believe that my proposals will help to lift the blight. I confirm what my hon. Friend says. The fallacy in the minds of some Labour Members is to equate State ownership with national interest, influence and control. They are not the same. The British people have had every reason to learn that from events in the early part of this year and in the past five years.

Dr. Owen: The Secretary of State has made a serious implied allegation. He implies that the BNOC has not acted in the State's interest. Whatever the right hon. Gentleman's doctrinal view of the BNOC, he owes it, to that Corporation and the people who work for it to make it profitable at least to say that they have worked in the national interests.

Mr. Howell: I made no such allegation. I said that narrow State ownership is not necessarily—and, indeed, not often—in the interests of the British people. That applies to State industries of many types, including the BNOC. That is no allegation against the work of the BNOC or of its chairman, with whom I have had many constructive discussions. I fully recognise his energy and value. The right hon. Gentleman has got the matter completely wrong.

Mr. Gordon Wilson: Since the Secretary of State has mentioned the benefits of his proposals to Britain, will he please spell out the benefits to Scotland?

The head office of the BNOC is in Glasgow. Does the Secretary of State propose to take staff away from Glasgow and to build up the petroleum division in his own Ministry in London? Does he agree that that is a damnable proposition, since the oil belongs to Scotland? Will he therefore transfer the petroleum division of the Department of Energy to Scotland from London?

Mr. Howell: The hon. Member is becoming unnecessarily excited. There will be considerable benefit to his fellow countrymen through exploration, investment, expenditure, equipment and more activity in the North Sea. That will help the hon. Gentleman's country. I am surprised that he has not seen fit to welcome my statement.

I do not think that there will be any substantial or even minor cuts in the staff

of the BNO. The Corporation has large and over-extended commitments. Over one-quarter—or 145—of the licences issued for North Sea exploration are held by the BNO, out of a total of 457. It is not a question of cutting staff so much as cutting commitments so that the staff can get on with the job as I know they wish to do.

Mr. Emery: Does my right hon. Friend agree that the rundown of expansion in the North Sea under the previous Government is best illustrated by the fact that when the Labour Government came to office there were 28 exploratory rigs in the North Sea, but when the Labour Government lost the election only seven or eight such rigs were operating?

Does my right hon. Friend agree that the confidence that will encourage international oil companies to return and explore in the North Sea will be restored, because they will no longer have the impression that the whole of the North Sea is in the BNO's pocket?

Mr. Howell: I agree with my hon. Friend. Confidence will be restored, but we cannot undo in 10 weeks the jumble of five years.

Mr. Dalryell: Will the Secretary of State be more specific about the marginal fields? He promised talks. If the BNO is to be dismantled, how can we have any confidence that fields will be dealt with in a rational sequence?

Mr. Howell: I do not think that the two matters are directly related. The BNO had a preferred and irrational sequence in the fifth and sixth licensing rounds. In future rounds, as it will not have a preferred position, there will be a more open and rational sequence, which will allow small and large operators a fair share and a full input of enterprise in the North Sea. I hope that this will benefit the hon. Gentleman's constituents.

Mr. Skeet: Will the Secretary of State consider merging the rather diminished assets of the BNO with the British Gas Corporation and offer a part of the combined Corporation to the public? Will my right hon. Friend confirm that his proposals mean the abolition of the national oil account and the payment of the royalties and rentals to the Treasury?

Mr. Howell: The first proposition of my hon. Friend is an interesting one, but

my answer to it must be "No". No final decision has been taken on the future of the national oil account, but the BNO will cease to have access to it.

Mr. William Hamilton: Is the Secretary of State aware that many people in the United Kingdom will regard this as an exercise simply in transferring to private shareholders and private speculators additional loot from the public purse? The right hon. Gentleman said that the BNO will no longer be entitled to sit on the committees. How will the Government secure access to the technological and geological expertise which is in the hands of the private multinational companies? Further, who will be the new chairman when the right hon. Gentleman gets rid of Lord Kearton? Will the right hon. Gentleman give us concrete proof, in the form of a White Paper or otherwise, to show how this new set-up will increase the amount of exploration in the North Sea?

Mr. Howell: I am satisfied that the strengthening of my Department's technical resources, combined with all the advice that I receive from many quarters, including the BNO, is fully adequate to formulate effective national policies in the national interest in respect of the production, exploration and development of oil in the North Sea. There is no question of getting rid of Lord Kearton. He has indicated to this Government, as he did to the previous one, that he wishes to go some time this year. His appointment runs out at the end of this year. I shall make an announcement about a new chairman in due course.

Mr. Forman: Many of us on the Conservative Benches think that my right hon. Friend has the balance about right in his statement. Is he aware that there are very strong grounds for saying that the policies that he announced in his statement will manage to secure access to oil, control over depletion policy, and adequate monitoring facilities within the Department?

Mr. Howell: I am grateful to my hon. Friend for his comments. I am convinced that these objectives can and will be achieved by the policy that I have outlined today.

Mr. Hooley: The Secretary of State's statement will be widely welcomed by

[Mr. Hooley.]

those financial and commercial interests who contributed most heavily to the Tory Party and who are now being repaid for their political bribes. Is it not extraordinary that in an industry that is dominated by multinational companies, which are difficult, if not impossible, for national Governments to control, he should set out to destroy an important instrument of national control, allegedly for the benefit of United Kingdom taxpayers as a whole.

Mr. Howell: I think that the hon. Member for Sheffield, Heeley (Mr. Hooley) has got it upside down. The statement will be widely welcomed by the British people as an important strengthening of our energy resources and of the investment potential in the North Sea to meet the energy strategy and needs of this nation over the next 20 to 25 years.

Mr. Hill: Is my right hon. Friend not concerned that the House is becoming quite myopic over North Sea oil, as though that were the only source of oil in the United Kingdom? Is he aware that we in the South are anxious that a further release of licences should be made as soon as possible, and that every assistance should be given to private enterprise in the English Channel so that it can make progress? Is my right hon. Friend aware that southern Members will be pleased to share their oil with Scottish Members?

Mr. Howell: I take note of my hon. Friend's comments. Of course, providence and geology have placed certain limitations on his aspirations, but at least one of the licences that I am announcing in the sixth round batch today is in the South-Western Approaches, and others are in the southern basin. This is therefore not entirely a northern affair.

Mr. Arthur Lewis: In view of the Tory Party's declared policy before, during, and since the election, that it is in favour of improving industrial relations, to what extent has the right hon. Gentleman had discussions with the trade unions about these matters? Will he give an assurance that if those discussions are taking place they will continue through the following processes that are in train.

Mr. Howell: I have discussed this matter with the chairman and the board of the BNOC, but I thought it right that the House of Commons should be the first to hear our proposals and plans. Of course, it is now my intention to discuss them most closely with the staff, and I shall do so.

Mr. Sproat: Is my right hon. Friend aware that this major surgery on the powers and rights of the BNOC—powers and right that always owed more to political dogma than to commercial common sense—will be universally welcomed by those who work in and with the oil industry? What did the chairman of BNOC say about the proposals that my right hon. Friend has put forward today?

Mr. Howell: My conversations with the chairman are confidential. However, I believe that my announcement will be welcomed by all those who are in enterprise and activity of a very advanced and, sometimes, very strained and difficult kind in difficult conditions in the North Sea, as well as by many of those working in the BNOC.

Mr. Stoddart: Is the right hon. Gentleman aware that his statement is nothing short of scandalous? It is scandalous that he should be flogging off great national assets and undermining the British interest by selling those assets off to foreign oil companies. By what mechanism does he intend to ensure that unprofitable fields are developed by private operators in the absence of control in respect of the BNOC?

Mr. Howell: The hon. Member for Swindon (Mr. Stoddart) is confusing narrow State ownership with the British national interest. They are two very different things. I do not think that in its previous form the BNOC was concerned, or even wished, to rush into unprofitable fields. The first priority is to establish where there are commercially recoverable reserves, and then we must recover them. More of that will happen as a result of my statement today.

Mr. Eggar: Is my hon. Friend aware of the dangerously large number of licences held by the BNOC, which has undoubtedly held up the development of North Sea fields, particularly because the limited number of extremely dedicated employees who have the necessary

Prime Minister

Energy

You said you would like
to consider Mr Howell's
proposals for the 7th Licences
round at today's meeting. (He
wants to announce them this week).

12.

? 23/7/79

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Qa 04207

To: MR LANKESTER
From: SIR KENNETH BERRILL

Offshore Licensing

Prime Minister

*Ken Berrill's doubts
seen well-founded.*

*Shall I write as
per the draft at Play B?*

*(You may wish to
refer to min in E)*

*No - can be
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23/7

Play A

1. In his minute of 20 July to the Prime Minister, the Secretary of State for Energy seeks agreement to his making a detailed announcement on offshore licensing policy on 26 July concurrently with his proposed announcement on the future of BNOG. I believe very strongly that it will be premature for the Secretary of State to make a detailed announcement at this juncture before a number of important issues are clarified between Ministers. In my view there is everything to be said for putting off the announcement until the Autumn and that very little would be lost by doing so.

2. Licensing policy is, of course, intimately bound up with depletion policy. Depletion of oil and gas assets is an issue which all major producers consider both seriously and in detail. There have been three interdepartmental studies on depletion policy under the previous Administration, all of which came to the conclusion that, although there were great uncertainties, the best policy was one of caution and one of flexibility.

3. The Secretary of State wishes to go back on both these conclusions and to announce that the 7th licensing round will be twice as large as the previous two rounds and that similar rounds will follow at intervals of about 18 months. The abandonment of flexibility is almost as important as the change in scale. All our EEC partners will want us to have large rounds which follow each other rapidly and it will be difficult for us to go back to a flexible approach once we have adopted the new course. This change of direction on both size and flexibility could be right or could be wrong, but as far as I know has been undertaken without detailed analysis. I believe that the Secretary of State commissioned a fourth reconsideration of depletion policy but that study is not yet complete.

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4. The Secretary of State's proposed announcement raises a number of subsidiary issues -

(a) in the proposed 7th round, how can we ensure that British participation will be adequate to fill the gap left by BNOC? The balance of payments advantages of the exploitation of the North Sea by British companies rather than foreign companies are considerable. At the moment UK companies (including BNOC) hold some 43 per cent of the licensed area and we would want it to be at least as high in future.

(b) By what arrangements would the UK Government have the option to purchase up to half the oil found under the new round? How would the responsibility be split between the Government and BNOC?

(c) How will the announcement of the 7th round encourage further exploration under the previous six rounds? The 7th round would presumably be allocated before existing licensees had had much time to speed up their activity.

5. If the announcement on the 7th round were put off until after the Recess, it would not, in practice, make much difference to activity in the North Sea. 7th round licences would only be awarded in the summer of 1980 and drilling in the new areas could only be planned for 1981. If the Secretary of State makes his announcement in October and companies wish to speed up exploration in 1980 so as to set a good tone for their 7th round applications, they will still have time to replan their 1980 programme.

6. I expect a number of Ministers would subscribe to some of the points made above and would wish for collective discussion before announcements are made, in particular the Chancellor of the Exchequer, the Foreign Secretary, and the Secretary of State for Scotland.

7. If the Prime Minister agrees that an announcement this Thursday would be premature, she might like a minute to be sent to Mr Howell's Private Secretary along the lines of the attached.

8. I am sending a copy of this minute and the attachment to Sir John Hunt.

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DRAFT LETTER FROM MR T LANKESTER TO DR W BURROUGHS

Future Offshore Licensing

The Prime Minister is grateful for your Secretary of State's minute of 20 July on the future of offshore licensing seeking her agreement and that of other colleagues to his making a statement on 26 July about the 7th licensing round concurrently with his statement on BNOG.

The Prime Minister appreciates the case for giving a boost to exploration of the UK Continental Shelf, including deep water exploration, but the proposed announcement does constitute a major shift from previous depletion strategy both by having larger rounds and by committing the Government to rounds every 18 months. Once having got locked into such a commitment it will be difficult, vis-a-vis our EEC and OECD partners, to go back on it. She suggests that depletion strategy ought to be discussed interdepartmentally and between Ministers before an announcement is made in the Autumn.

Apart from this the Prime Minister would like your Secretary of State to describe the steps that might be taken to ensure significant participation by British companies if there are fairly



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frequent licensing rounds of 100 blocks: in particular, how does your Secretary of State see the role of smaller British companies to which he refers?

I am sending copies of this letter to the Private Secretaries to the members of E Committee, to the Secretaries of State for Defence, for Scotland and for Wales, to the Attorney General, Sir John Hunt and Sir Kenneth Berrill.

LONDON

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PRIME MINISTER

FUTURE OFFSHORE LICENSING

The previous Administration's policies for the development of our offshore oil and gas resources have contributed to a substantial drop in the rate of exploration and drilling for prospects. The industry maintain, and I entirely concur with them on this, that a boost is needed in the rate of licensing, if it is to be encouraged to get on with the costly and difficult job of exploring for the reserves which are thought to lie as yet undiscovered on our Continental Shelf, and which we need to find now if we are to avoid a serious drop in production of indigenous oil and gas in the 1990's.


With this in mind, I have carried out a review of offshore licensing policy, and am now ready with proposals to implement our declared policy of restoring the momentum of exploration and encouraging the greater involvement of the private sector. From my discussions with the industry I believe that these proposals will be generally welcome.

The essential features are:

- (a) The rate of licensing should be roughly doubled so that about 100 blocks of UKCS territory are awarded every 18 months or so. (Each full block covers roughly 100 square miles). The remaining stock of blocks in the relatively shallow water depths (that is down to 1,000 feet or so) should sustain such a programme of awards for the next four or five years, until the industry is technically better prepared to undertake the thorough exploration of the deeper waters of our Continental Shelf where, hopefully, further reserves remain to be discovered.



- (b) Although the industry is not yet ready to undertake extensive exploration in deeper water, we should encourage it to make a start by offering a few deep water blocks to stimulate interest of the more forward looking companies and wider discussion of the special problems of deeper water operations.
- (c) The arrangements should include provision within rounds of licensing for companies to apply for blocks which have not been nominated in the normal way by my Department as available for application. In parts of our Shelf which are already explored, notably the North Sea, it should be to our advantage to allow companies to apply for blocks of their choice in addition to those nominated by my Department.
- (d) As a good proportion of the remaining undiscovered reserves are thought to lie in blocks already licensed one of the aims of the next round should be to encourage companies to explore their existing territory more thoroughly. Thus applicants' record and intentions in exploration of existing licences would be very important factors in the awards of future licences. So would their readiness to explore blocks of ours as well as their own choice.
- (e) BNOC (and BGC) should no longer have the preferred position of licences accorded by the previous Administration. This recommendation is entirely consistent with our policy objectives for BNOC.
- (f) As BNOC will no longer have a mandatory share in licences, we need to consider how we can offset at least some of the resulting reduction in the British share of licence territory. In particular,



we want to help the smaller British Companies. I believe that we can achieve this by informal discussion and the normal administration of licensing procedures under my powers. We would do this with care so as not to provoke allegations from overseas that I was using these powers in a discriminatory manner.

- (g) The arrangements should be drawn in such a way as to give the Government an option on half the oil found under new licences.

If you and our colleagues are generally content with these proposals I will announce them by Written Answer concurrently with my proposed Statement on BNOC next Thursday, 26 July. (A draft Question and Answer is attached). My Department will then be able to discuss the detailed conditions and arrangements for the next 7th licensing round with industry, the TUC and STUC, local authorities and environmental interests, as well as with Government Departments particularly those closely concerned in the choice of the blocks to be offered for licence, Scottish and Welsh Offices and the Defence and Fisheries Departments.

My Department will also prepare any necessary Regulations. These could be subject to negative resolution. My aim would be to announce the 7th round and invite applications around the end of the year with a view to issuing licences during the summer of 1980.

I am copying this minute to our colleagues in E Committee, to the Secretaries of State for Defence, Scotland and Wales, to the Attorney-General and to Sir John Hunt.

Secretary of State for Energy
20 July 1979

J.H.
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Q: TO ASK THE SECRETARY OF STATE FOR ENERGY WHAT PROPOSALS HE HAS FOR FURTHER OFFSHORE PETROLEUM LICENSING

A: The Government has already declared its objective that exploration of the oil and gas resources of the UK Continental Shelf should go forward with increased momentum. This is necessary if we are to be able to develop new fields in the years ahead when production from existing fields starts to tail off. To this end I intend to get a new round of offshore licensing under way as soon as possible.


It is important that our offshore licensing system gives encouragement and stability to the industry, which has to invest in exploration and development effort, and safeguards the nation's essential interests in our resources. My Department has been reviewing licensing policies in the light of experience and changing circumstances, and I propose that the seventh and ensuing licensing rounds should be on the following basis.

(a) The rate of licensing should be around 100 blocks every 18 months or so - about double the rate of the 5th and 6th Rounds.

(b) Some blocks in deeper water should be included in the rounds.

It is important that we should start to explore deeper water territory on our Shelf and gain experience of the problems involved.

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- (c) In parts of our Shelf which are already extensively explored, notably the North Sea, companies should be able to apply for blocks of their choice, in addition to their application for blocks nominated by my Department.
- (d) Since a good proportion of the remaining undiscovered reserves is thought to lie in territory already licensed, it is important that existing licence areas should be thoroughly explored. Applicants' record and intentions in the exploration of their existing licenced areas would be important factors in the award of future licences. So would their readiness to explore blocks of my Department's as well as their own choice. By removing the public corporations' first options on assignments of licence rights I have also given encouragement to exploration in existing licenced areas.
- (e) The public corporations will no longer have a preferred position or mandatory interest in future licences.
- (f) The arrangements should provide for the Government to have an option to purchase up to half the oil found under new licences.

I now propose to discuss my proposals for future licensing with management, unions and other organisations closely involved. In addition I will welcome the views of interested bodies outside the industry about which offshore areas might be licenced over the next few years and in particular their views on areas where they believe special care may be needed in the conduct of exploration and development for environmental or other reasons.

The Government believes that this new and more positive approach to licensing will result in a correspondingly positive response from the industry, larger and smaller companies alike, and will lead to greater exploration activity on our Continental Shelf.



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