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CABINET  
MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

SEVENTH ROUND OF OFFSHORE PETROLEUM PRODUCTION LICENSING  
Memorandum by Secretary of State for Energy

1. My proposals for future offshore oil and gas licensing, set out in a minute to the Prime Minister of 20th July, were discussed by the Committee on 24th July (E(79) 6th meeting) and it was agreed to defer consideration until the report on depletion policy, then under consideration, was available. This is now circulated to the Committee (E(79)58).
2. This paper subsumes and develops my earlier proposals on licensing, taking into account discussion in the meantime with interested Departments.

Proposal

3. I propose that the Seventh Round should be significantly larger than the Sixth (46 blocks) and that 100 blocks should be offered both in the interests of exploring the UKCS at the right rate and of making clear our determination to restore the momentum of exploration activity. It should be noted that no significant quantities of any oil discovered under Seventh Round licences could begin to flow before 1990 when our oil production will already be in decline. Also some 20 of the 100 blocks I propose to offer will be in deeper, unexplored water where the pace of any development will inevitably be slower while deeper water technology is being established. I can accordingly reassure my colleagues that getting ahead now with a Seventh Round of the size proposed should not conflict with policies for slower depletion in the 1980's. Rather it will reinforce our efforts to secure more indigenous oil in the 1990's.

4. It is important to re-establish the confidence of private industry that the Government sees an important and continuing role for it in exploring and developing the resources of the UKCS. This confidence was sadly undermined by our predecessors. The steps we are taking will help to restore it; BNOG will no longer be a mandatory licensee, and I also intend to exclude from the Round the optional criteria which were so disliked by the industry in the previous Round. I also propose to offer applicants a limited opportunity of applying for blocks of their own selection. In addition I would like to indicate the Government's intention to follow the Seventh Round with similar Rounds every 18 months - 2 years. This will enable the industry to plan orderly and sustained exploration programmes through the 1980's for production in the 1990's. However, if my colleagues feel that we should avoid this statement of intent at this stage, I would be prepared, with reluctance, to omit it from the announcement of the Seventh Round.

5. It is important that with BNOG's smaller involvement in the Seventh Round, the reduction in overall British interest is not too marked. To this end I have informally indicated to the major companies operating on the UKCS that they should consider increasing the British private sector stake in partnerships for the Seventh Round licences. The response has been encouraging.

6. The terms on which I propose to award licences are outlined in the proposed announcement annexed. I draw my colleagues' attention in particular to:

- a) the requirement to give BNOG an option to take at market price half of any oil produced.
- b) the emphasis on companies' drilling performance and plans on existing licensed territory in assessing applications for new licences.

#### 7. Consultation

In addition to deciding the licensing arrangements we will need to select the blocks to be listed as open for applications. My officials have begun

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consultations with interested Departments about our proposals and good progress is being made towards identifying a list of blocks which, in general, should satisfactorily accommodate (probably by means of some restrictions on activities) both the need to find reasonably prospective areas to explore and the interests of other marine users. What has however become clear is that apart from clashes of interest with defence and shipping activities (which can largely be dealt with within Government we cannot hope in the next Round to avoid areas which are sensitive to other interests for which Government is not directly responsible, namely those concerned with fishing and the environment. The clash of interest will be greatest in the Moray Firth and the English Channel areas where it is essential to include a good number of blocks if the Round is to be considered reasonably attractive to the industry. It will be necessary to make a special effort to overcome these sensitivities and I propose to do this by including, in the preliminary announcement of the licensing arrangements for the next Round, a list of the areas we are considering for licensing. This will provide an opportunity to consult the main fishing and environmental organisations before the licensing decisions are taken: it is a departure from previous practice but one it is essential to make if we are to avoid allegations of insensitivity and lack of concern about those other important interests.

#### Timing and Announcement

8. Subject to the Committee endorsement of these proposals I would announce them by Written Answer as soon as possible, as at Annex. Following the announcement there will be the licensing consultations with industry, TUC, STUC and other interests. This will take 2 to 3 months after which I would be able formally to advertise the Seventh Round (by Gazette Notice) and invite applications.

The process of inviting and assessing applications will take about 6 months so that first awards of licences are unlikely before August 1980. The probability is therefore that drilling in earnest will not start until 1981, but one or two wells may be drilled in late 1980.

#### Recommendation

9. I invite the Committee to agree that I should proceed as above.

3.

TO ASK THE SECRETARY OF STATE FOR ENERGY WHAT PROPOSALS HE HAS FOR FURTHER OFFSHORE PETROLEUM LICENSING?

The Government has previously 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 to the industry, which has to invest in exploration and development effort, and at the same time safeguards the nation's essential interests in our resources. My Department has been reviewing licensing policies in the light of current circumstances, and as a result I propose that the licensing strategy should be to hold Rounds of licensing, of similar size, every eighteen months to two years. The first of these, the Seventh Round, should include the following principal features:

- a) The Round should be of about 100 blocks - that is, substantially larger than the Sixth Round.
- b) Some blocks in deeper water should be included in the Round. It is important that we should start to explore territory in progressively deeper waters and gain experience of the problems involved.
- c) In the generally well explored area of the northern North Sea, North of 56° North and East of the Greenwich meridian, companies should be able to apply for blocks of their own choice, in addition to their application for blocks listed by my Department: licensing would be subject to the normal consideration of other activities in the area.
- d) A good proportion of the remaining undiscovered reserves is thought to lie in territory already licensed, and it is important that existing licensed areas should be thoroughly explored.

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'Applicants' record and intensions in the exploration and appraisal of their existing licensed areas will be important factors in the award of future licences. So will their readiness to explore blocks of my Department's as well as their own choice.

- e) Other factors which will be taken into account in assessing applications will include technical and financial competence, previous licence performance, contribution to the UK economy, performance on the full and fair opportunity policy, and in respect of training and industrial relations.
- f) The public Corporations will no longer have a preferred position or mandatory interest in future licences.
- g) The arrangements will provide for BNOC to have an option to take at market value up to half the oil produced under new licences.
- h) The model clauses incorporated in licences will, in general, remain unchanged; but the opportunity will be taken to make minor adjustments to some of these, for example in respect of the administrative arrangements for royalty.

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 about which offshore areas might be licensed 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. In this respect, I am considering including in the Seventh Round the offer of blocks for licensing in the following areas: North and West of the Shetland Islands, the northern North Sea, the Moray Firth including blocks near the Beatrice discovery, the southern North Sea, the South West Approaches, the Irish Sea and central and inshore areas of the English Channel.

The Government believes that these proposals will result in a positive response from the industry, larger and smaller companies alike, and will lead to an increase in exploration activity on our Continental Shelf.

D.A.R.H.

Department of Energy  
18 October 1979

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