

Energy



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

27 May 1980

The Rt Hon David Howell MP
 Secretary of State for Energy

*MBM yet (Teg and
 Energy officials say
 but depletion policy
 with no human effort)*

D. Davis

DEPLETION POLICY

I understand that your Department has just reduced still further its estimates of North Sea oil production over the next few years so that they are now:

*12
 28/5*

m tonnes					
<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
81	91	103	112	119	115

The extent of the recent reductions in the forecasts can be gauged by comparing them with the forecasts in the officials' report on depletion circulated in February. The figures there were:

m tonnes					
<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
86	100	110	116	126	126

(For the MTFs the forecasts for 1980 and 1981 were reduced, on the advice of your officials, to 83 and 99m tonnes respectively).

Both sets of forecasts assume a best estimate of field capabilities. That is, they do not take account of reductions in production as a result of the implementation of decisions on depletion policy except to the extent that they assume the continuation of the flaring restrictions at Brent. I understand that the reductions reflect your engineers' latest assessment of the effects on field production profiles of reservoir problems.

/Lower oil production

CONFIDENTIAL



Lower oil production will significantly reduce the Government's take from the North Sea and it will therefore make it harder to achieve the objectives of the Medium Term Financial Strategy without unwelcome changes in other policies. The Inland Revenue's first estimates of the effect on North Sea take at 1978-79 prices of the reduction in forecast production since the MTFS are £0.4 bn for 1981-82, £0.7 bn for 1982-83, and £0.5 bn in 1983-84. There will of course be other influences on North Sea take, but these reductions compare with fiscal adjustments in the MTFS of zero in 1981-82, £2.5 bn in 1982-83 and £3.5 bn in 1983-84. The effect on our ability to reduce the burden of taxation is obvious.

In these circumstances I think that we ought to reconsider the decisions on depletion policy taken at E Committee on 11 March. I recognise that substantial quantities of oil may not be involved, particularly if BP do not seek a profile variation consent for their Forties field. But further reductions in production, in this case self-inflicted, would make it yet harder to meet the Medium Term Financial Strategy. Furthermore, the recent reductions in the forecasts have already gone a long way to secure the reductions in production which would have been secured by the implementation of the three depletion measures endorsed by E Committee without any action by us.

In view of the importance of the Medium Term Financial Strategy I think that we ought to have the opportunity to reconsider our decision on depletion policy before you make your statement to Parliament. Could I therefore suggest that our officials should prepare a paper which shows the effect on Government take during the next few years, and particularly in the period of the Medium Term Financial Strategy, or all the depletion decisions in prospect. We can then consider the consequences for the Strategy before you make your statement and formally announce our decisions on depletion policy.

I am sending a copy of this letter to the Prime Minister, the Foreign and Commonwealth Secretary and to Sir Robert Armstrong.

GEOFFREY HOWE



27 MAY 1980

