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Ref. A02993

PRIME MINISTER

BNOC: Timing of Clyde Oilfield Development

(E(80) 98)

BACKGROUND

When the Committee discussed the nationalised industries investment and financing review in July (E(80) 24th Meeting) the Secretary of State for Energy was invited to bring forward "in due course" proposals on the timing of the development of the Clyde field. The point is that the Clyde field - of which BNOC owns 51 per cent and is the operator - is one of only two North Sea fields whose development is currently outside the "Varley" assurance of no imposed delay in development: and delay, by deferring capital expenditure, would save money on the PSBR in the short term at the expense of a delayed stream of profits in the long. The case can be argued, and deferment defended, on the basis of "depletion policy" but the quantities of oil are not large in relation to total production and the real question is whether the short-term gains to the PSBR outweigh the other consequences. The arguments for and against delaying development are set out in paragraphs 4 and 5 of the Secretary of State for Energy's paper. Legal advice is apparently that deferment beyond five years is in any case not acceptable and Mr. Howell's compromise proposal is that the development of Clyde should be deferred by two years. We understand that the Lord Advocate is still considering the legal advice on which Mr. Howell's paper is based (the development is subject to Scottish law) but is unlikely to dissent from it. Nevertheless we believe that he has asked Mr. Howell to make it clear that any decision in favour of delay - whether for two years or five - should be conditional on his, i.e. the Lord Advocate's, final legal clearance.

HANDLING

2. After the Secretary of State for Energy has introduced his paper you will want the views of the Chancellor of the Exchequer on the value of the PSBR benefits from the proposed course of action, together with those of

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Lord Mansfield (representing Scotland), the Secretary of State for Employment and Mr. Butler (representing Industry). All these latter Ministers are likely to argue against delay on grounds of lost industrial and employment possibilities.

CONCLUSIONS

3. Only two conclusions are possible:-

EITHER

- (i) to agree to the deferment of the Clyde development for a specified period (two or five years) subject to final clearance with the Lord Advocate about the legality of imposing such a delay;

OR

- (ii) to agree that the development of the Clyde field should not be delayed.

RA

ROBERT ARMSTRONG

12th September, 1980

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