

Qa 05123

To: MR LANKESTER
From: J R IBBS

BNOC: Timing of Clyde Oilfield Development

1. At Monday's meeting of E Committee Ministers are due to discuss a memorandum by the Secretary of State for Energy on "BNOC: Timing of Clyde Oilfield Development". In this Mr Howell seeks colleagues' agreement to deferring the first oil from Clyde by two years.

2. The Clyde Field is not subject to the Varley assurances and development could be delayed by five years in sympathy with the broad principles of oil depletion policy agreed at E(80) 9th Meeting. A five year delay would reduce UKCS production by only 2 per cent over the period 1985/90 but it would reduce the projected production surplus over United Kingdom demand by 10 - 15 per cent. Because of the expected increase in the real price of oil, a five year delay would show an economic benefit in net present value terms (1979 prices) of £110m. In addition to this economic benefit, a delay of five years would reduce the PSBR in 1981/85 by £140m because BNOC would be deferring expenditure. There should also be a further £60m of Corporation Tax receipts from Shell/Esso on the assumption that if they do not invest in Clyde their total capital investment will be correspondingly smaller.

3. In the forthcoming discussions on public expenditure there will be few occasions where there is an opportunity to reduce the PSBR by up to £200m, whilst at the same time obtaining a substantial economic return and implementing a declared Government policy. The CPRS believes therefore that this opportunity should be seized and the development of Clyde be deferred the full five years.

4. The CPRS would raise the following points in response to Mr Howell's arguments in favour of a two rather than five year delay -

- i. a two year delay with a major platform order in 1984 would still leave a major lull in the platform yards from late 1981/early 1982. It is not clear therefore that a two year rather than five year delay is as great an improvement in terms of effect on the offshore service industry in Scotland as Mr Howell's paper implies;



ii. it is arguable that the most important aspect of BNOC operating arm is its exploration rather than development capability; there is no shortage of potential developers once the oil has been found. A five year delay would not disrupt exploration activity;

iii. the fact that Shell/Esso support BNOC's plans is not conclusive since this view represents their own commercial rather than the national interest;

iv. it is inevitable that there will be some fluctuations in workload for the technical staff in BNOC and from time to time arrangements will have to be made to overcome this, for example by hiring people out to other operators;

v. one advantage of having a national oil company is the flexibility it provides in implementing a depletion policy;

vi. because the BNOC revenue bonds are to be related to income from specified fields it is not clear why decisions relating to other fields need affect the launching of these bonds.

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

12 September 1980