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Gweny

Ref. A03804

PRIME MINISTER

BNOC: Timing of the Clyde Oil Field Development

(E(80) 142 and 149)

BACKGROUND

At their meeting on 15th September the Committee invited the Secretary of State for Energy to arrange for the deferral of the development of the Clyde field by five years, unless detailed examination of that prospect convinced him that the Committee should reconsider the question (E(80) 33rd Meeting, Item 3).

2. The Secretary of State for Energy is now so convinced and, in E(80) 142, he recommends delay by two years only so that the first oil would be produced in 1987 rather than 1990. His main arguments are:-

- (i) The public expenditure costs of delay by two years would be the same as for five years, because BNOC would be prepared to undertake sales of oil for advance payment in each year (paragraphs 5-7).
- (ii) A platform order for Clyde would boost the offshore supplies industry, and Scottish employment, in a period of run-down and of uncertainty over the prospects for orders for exploration rigs (paragraphs 8-10).
- (iii) BNOC say that a five year deferral would lead to dispersal of their key project management teams; and that Government intervention in this way could affect the prospects for the Revenue Bonds scheme and the ability in future of BNOC to form partnerships for North Sea exploration and development (paragraphs 11-13). These points are put strongly in the letters at Annexes A and B from the Chairmen of BNOC and of Shell.
- (iv) The bulk of Clyde production will be in the 1990s when production overall is falling (the figures are tabulated in Annex 1(a) and shown graphically in Annex 1(b)). Intervention to defer Clyde, on top of the proposed tax on oil production, could discourage exploration (paragraphs 11-17).

  
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3. The CPRS in E(80) 149 draw attention to the counter arguments in favour of a five year delay:-

- (i) Although the amounts are relatively small, deferral by five years would help to extend the period of the United Kingdom's net self-sufficiency and avoid adding marginally to our net exportable surplus in 1987. Deferral would also lead to benefits from the increases in oil prices in real terms.
- (ii) They are sceptical over the significance of the implications for employment, exploration effort, and the impact on the offshore supply industry.
- (iii) They suggest that the proposed additional forward oil sales could take place even if Clyde were deferred for five years - though BNOB would strongly resist this.

HANDLING

4. After the Secretary of State for Energy has introduced his paper you will wish to invite Mr. Ibbs to put the counter arguments. You might then ask the Chancellor of the Exchequer whether he is satisfied with the argument that the two courses are now neutral in public expenditure terms. Lord Mansfield (who is representing the Secretary of State for Scotland who is in Brussels) and the Secretary of State for Industry will wish to comment on the employment and industrial implications. The development is subject to Scottish law and the Lord Advocate, together with the Attorney General, is present to deal with any legal questions - although I understand that his view is that there are no legal objections to either two or five years deferral.

CONCLUSIONS

5. In the light of the discussion you will wish to record conclusions:-
- Either confirming the Committee's decision on 15th September that there should be a five year delay;
  - or approving the Secretary of State for Energy's recommendation of a two year delay subject to increased advance sales of oil to ensure that the public expenditure costs would be the same as for a five year delay.

RA

(Robert Armstrong)

15th December, 1980