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SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
01 211 6402

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15/1

Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
LONDON SW1

18 January 1980

Dear Sir

Thank you for your letter about auctioning of oil licences.

Although a meeting of 'E' Committee is not scheduled to consider further the Seventh Round of Licensing, I had intended to inform colleagues of the definitive arrangements for the Round once the necessary consultations with the industry and other interests had been completed.

The idea of cash bidding has been publicly aired; I am discussing it with the industry and I shall be very willing to discuss the matter with colleagues. However, I think it would be helpful for colleagues to know that the industry has already made clear its intense dislike of any cash bidding arrangements. More important still, the small British companies have made a particularly strong plea that such arrangements would badly affect their competitive position and reduce significantly their ability to participate in UKCS activities.

But over and above these perhaps, predictable views, there is the general question of how we treat companies in UK waters. In the end there are only a limited number of golden eggs from the goose. Do we best get them by stable and well tried methods, or by changing the regime? The idea that there is a large extra amount of money to be extracted from the oil companies is, I believe, misconceived. Auctions might get the Government's share of revenue in different ways, but might also place other North Sea policies at risk. My view is that before introducing change for change's sake we should think very carefully indeed.

From this you will have gathered that whatever we may decide on the principle of cash bidding, my preference is to complete the Seventh Round under the present system which is recognised and understood by the industry.

Finally, I should say I very much doubt whether a realistic estimate could be made of potential proceeds from cash bidding for licences. The only UK experience was long ago - in 1971 - and in very different circumstances, and recent American experience cannot be directly translated to our Continental Shelf.

I am sending copies of this letter to Members of 'E' Committee and Sir Robert Armstrong.

D A R HOWELL

Yours,

Dario

118 JAN 1960





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

December 1979

David Howell

THE AUCTIONING OF NORTH SEA OIL LICENSES

There was some discussion at E(DL) Committee on Wednesday about the possibilities for auctioning the licenses in the North Sea Seventh Round and in my summing up I said that this was a matter which could be considered separately in due course by E Committee.

E Committee is not in fact due to consider again the Seventh Round and I am therefore writing to ask that you should give colleagues the opportunity to consider the case for auctioning Seventh Round licenses before final decisions are taken.

I hope that you can give some estimate of the proceeds from any auction since they could provide a helpful contribution to reducing next year's PSBR.

I am sending a copy of this letter to the members of E Committee and to Sir Robert Armstrong.

GEOFFREY HOWE

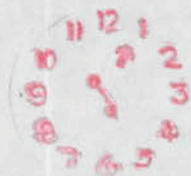
The Rt. Hon. David Howell MP.

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a. H. David

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To note: this issue will come to E.

Treasury Chambers, Parliament Street, SW1P 3AG
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29/1

28 January 1980

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David

AUCTIONING OF SEVENTH ROUND OIL LICENCES

Flay A

Thank you for your letter of 18th January about your preference for running the Seventh Round of oil licences under the present discretionary system.

I am not at all convinced that a case has been made out for allocating the Seventh Round licences under the present system. Certainly no-one is suggesting "introducing change for change's sake", as you suggest in the fourth paragraph of your letter. But I think that many will argue that this Government's approach should be to rely on the market place rather than on administrative discretion. I am also bound to attach importance to means for raising additional revenues at a time when colleagues are being asked to make difficult decisions on public expenditure. It may well be that the amounts of money at stake are not large - presumably we will only discover this by having an auction - but auction licensing does have the advantage of enabling the Exchequer to benefit earlier.

I should therefore be grateful if you would circulate a paper to colleagues on the question of auctioning the Seventh Round licences so that we can come to a collective view. I think that it would be helpful if officials could have the opportunity to discuss the draft paper before it is circulated.

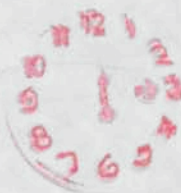
I am sending a copy of this letter to members of E Committee and to Sir Robert Armstrong.

Geoffrey Howe

(GEOFFREY HOWE)

The Rt. Hon. David Howell, MP

29 JAN 1980



cc/AD



Energy

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ 211 6402

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1

13 February 1980

Dear Sir

12.18.80

Thank you for your letter of 28 January 1980.

I recognise the importance that must be attached to the consideration of possible means of raising additional revenue. I have, therefore, instructed my officials to examine this further in the context of the Seventh Round.

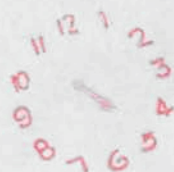
I will let you, and our colleagues, have a full reply on this matter when that study has been completed.

Copies of this letter go to members of 'E' Committee and to Sir Robert Armstrong.

D A R Howell

Yours
DAR

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The Rt Hon Sir Geoffrey Howe QC MP
 Chancellor of the Exchequer
 HM Treasury
 Parliament Street
 London SW1

7 March 1980

Dee Seamy

I am now able to send the fuller reply to your letter of 28 January as promised in my letter of 13 February.

I, too, am strongly inclined towards the market philosophy approach; indeed, the possibility of auction licensing was raised by me when the collective discussion of Seventh Round arrangements took place last October. But I must also attach a great deal of importance to the contribution of small UK companies; to ensuring that UK industry continues to obtain full and fair opportunity to compete for offshore orders; and to securing the pattern of oil disposal best suited to our needs. Our present licensing policies have given strong support to these matters, and in my judgment such support should continue.

It is right that alternative methods of licensing should be examined. I have, therefore, given further detailed consideration to cash bidding for licences and I attach a note (Annex 'A') on the advantages and disadvantages we see. I remain firmly of the view that there is nothing in the competitive cash bidding system which in any way assists the achievement of our licensing policies. Money would become the paramount, and indeed often the sole determinant in deciding which companies got licences. The change would risk our full and fair opportunity policy for British industry, and our efforts to influence oil disposal patterns (the companies would quickly realise there was no need to pay regard to such matters, if the cheque book could override any deficiency in performance). It would also sacrifice the efforts we have put into convincing foreign companies of the advantage of bringing British companies into their applicant groups. These efforts, which now seem to be bearing fruit, were initiated following the discussion at 'E' Committee in which much emphasis was rightly placed on the need to obtain a substantial British share in the Seventh Round.

I am now satisfied that a more intensive examination of the matter would not produce a fundamental shift of the argument, and I would be seriously concerned about the delay which such an examination would cause.

I entirely accept the need to examine possible means of obtaining early revenue for the Exchequer, and I have looked for alternatives which do not run into the same objections as cash bidding systems. Such a scheme (the 'additional cash bonus' scheme) is outlined in Annex 'B'.

-2-

The essential feature is that the present basis of licensing would remain unchanged, so it would be possible to maintain support for other UKCS policies. The scheme would, however, incorporate much higher initial payments for some blocks, that is those which the companies select in the mature areas of the northern North Sea, where they will have unrestricted freedom of choice in applying for blocks. The companies have welcomed the idea of an 'own choice' area and we think that a price of £4 million per block (ie the approximate cost of one well) would be a reasonable sum to test the seriousness of their interest. The 'additional cash bonus' scheme would have disadvantages. Less money would be available for exploration elsewhere, and some small British companies, including those new to offshore exploration, would have to re-think the level of their involvement in the Seventh Round. For that reason it is essential that the blocks outside the 'own choice' area should not require substantial early payments. The licensing of these blocks is of great importance to our exploration strategy.

I cannot pretend that I am enthusiastic about this scheme, given that it may adversely effect the level of British involvement. But it would be much less harmful than cash bidding arrangements would be.

There is a further matter for concern, and that is the size of the Round. Over the past few months I have had the benefit of discussions with oil companies, with the industry's representatives (both of the large and the small companies), and - perhaps more important - with independent analysts. Everything I have heard reinforces my belief that the Round is too small, and that it has, consequently, brought into question the seriousness of our declared intention to increase the rate of exploration. We need to initiate that exploration now to find the oil we will need in the 1990's, and every delay in increasing the rate of exploration increases the likelihood of a shortage of our indigenous oil supplies from the end of this decade. The slippage in the Seventh Round timetable means that the provision of new exploration opportunities has become more pressing. It has always been unlikely that significant quantities of oil would be produced from Seventh Round licences before 1990, but in any event, we have powers to delay the start of production from these licences.

The suggestion has been made that a larger Round might merely provide more blocks for foreign companies. This would not be the case because, as already mentioned, these companies are known to be responding to our encouragement to include a sizeable British element in their application groups; and - provided we retain the present form of licensing - full weight can be given to this factor.

I believe the case for a Round larger than 70 blocks is compelling. If we adopt the additional cash bonus scheme referred to in paragraph 5 it is important that we should be able to benefit from the total cash available from such bonuses, without prejudicing the award of blocks of my own selection. The latter are relevant to the strategy of gradually extending exploration and particularly of encouraging companies to move into deeper waters. This points to the need for a more flexible approach to the number of blocks for which licences will eventually be awarded. I have planned to put up about 70 specified

-3-

blocks on the basis of experience which suggests that 40 to 50 of these will attract applications. I now propose that we should plan the Round on the basis of licensing as many specified blocks as are applied for by competent applicants, but that we should defer any decision on how many blocks the licence in the 'own choice' area until we have had a chance to consider the applications. It is possible that this could result in a total of more than 70 blocks being awarded, but the additional awards would give us the benefit of extra exploration, more opportunities for groups including small British companies, and available extra cash from the additional blocks.

In summary:

(a) I remain of the view that we should proceed on the present basis of licensing, as agreed by 'E' Committee last October;

(b) Recognising, however, the pressing need for early money, I would be prepared - if our colleagues agree this is essential - to impose a much larger initial licence payment provided

(i) it is limited to the blocks in the company 'own choice' area, and

(ii) a more flexible approach is taken on the size of the Round.

You will see from Annex 'B' that we believe we might secure revenue of perhaps £80 million to £100 million in the Financial Year 1980/81, from larger initial licence payments. Clearly the timing of the receipts depends very much on how quickly we can resolve this matter, and complete the outstanding preparations for the Round. Moreover, the delay that has resulted from considering these options affects not only the announcement of the Seventh Round but also the general momentum of exploration. Accordingly, I think it is vital that we now reach an early decision on this licensing round.

Copies of this letter go to 'E' Colleagues, to the Secretary of State for Scotland, Sir Kenneth Berrill and to Sir Robert Armstrong.

Howell

Howell

D A R Howell

THE ADVANTAGES AND DISADVANTAGES OF A COMPETITIVE CASH BIDDING SYSTEM

Under the present proposals for the Seventh Round, the initial payment made by companies on grant of licence would (as in previous Rounds) be fairly small: £250 per square kilometre, or £62,500 for an average size block.

The introduction of cash bidding (similar to the 'closed tender' system used for a few blocks in the Fourth Round) would obtain an increased amount of money paid on grant of licences. The method could be applied to all blocks on offer, or some only of the blocks. This note sets out the advantages and disadvantages of such a system, as compared with the present form of licensing.

The advantages of the competitive cash bidding systems are that (i) they bring in money at an earlier date; and (notwithstanding that at the end of the day a substantial proportion of the early revenue would be offset by lower tax receipts) some extra revenue; (ii) they encourage companies to support their own estimates of the prospectivity of UKCS territory with their own cash. However, there could be a disadvantage here if more detailed studies and the competitive situation caused companies to become less enthusiastic about committing manpower to prepare applications for some blocks.

The disadvantages of competitive cash bidding systems are:

- a. there can be no certainty that parent companies would increase their UK subsidiaries' exploration budgets to compensate for cash premia paid, and there may be a reduction in overall exploration effort. This would undermine the policy of encouraging thorough and widespread exploration to identify fully the oil and gas resources on the UKCS.
- b. Cash bidding arrangements would severely limit the ability of the Secretary of State to award licences to any but the highest bidder. Although the Secretary of State could in theory accept or reject bids, money-in-hand is bound to be paramount in assessing applications and any divergence from this position would need to be defended before the Public Accounts Committee, and elsewhere. In particular it would be much more difficult to secure by administrative means that British interests, and small developing British firms, get a fair share of licences. There are also other considerations in

licensing such as affording UK suppliers a full and fair opportunity to compete for offshore orders, and disposal of any oil found in a way to assist our security of supply. Companies are presently unwilling to risk the possible denial of future licences by uncompetitive performance on such matters. The introduction of cash premia would reduce (and perhaps remove) Ministerial influence gained through this feature. A substantial amount could be at stake; for example in 1978 British companies obtained 66% of the offshore orders placed, worth in total about £1.6 billion. Prior to the introduction of the full and fair opportunity policy, with its supporting licensing criterion, the British share was about 25%.

c. The differing tax positions of applicant companies would enable some companies to make higher cash bids with corresponding tax offsets and make a fair process of comparison very difficult. The disallowance of cash bids from PRT and Corporation Tax assessment could be achieved but it would require legislative changes which could not be introduced in time for the Seventh Round. It would naturally also reduce the amount of money bid by tax paying companies. Even so, it would not entirely remove unfairness from the process of comparison, as foreign companies might still be able to set off losses incurred in the UKCS against their domestic tax position; the unfairness might thus transfer from companies not presently paying tax on the UKCS, to British companies.

d. Because of the need to formulate suitable arrangements, to study the tax implications, and to consult with the industry on these matters, licences would not be awarded in the Financial Year 1980/81, and the rate of drilling activity in 1981 and 1982 would consequently be reduced.

e. Small companies would be put at a severe competitive disadvantage: the majority of British companies fall into this category. In addition, the encouragement which Government Ministers have given to companies outside the oil industry to participate in UKCS exploration (which has been most effective and has set at a high level expectations for a significant British interest in the next Round) would be put at risk. Such companies would certainly re-appraise their planned involvement. Some would withdraw, and some would reduce their proposed investment.

It is noted above that the main advantage of cash bidding is that it would bring in early money, but not in the Financial Year 1980/81. There can be no certainty about the level of response to a 'cash bidding' Round, and no realistic assessment of the sort of sums companies might be prepared to bid. Any estimate of total revenue would therefore be entirely speculative and inevitably misleading.

PROPOSED SCHEME FOR OBTAINING SUBSTANTIAL EARLY PAYMENTS FROM THE
GRANT OF LICENCES (THE 'ADDITIONAL CASH BONUS' SCHEME)

This note sets out the outlines of a scheme for combining the present licensing method - and its support for UKCS policies - with a means for obtaining more substantial payments on the grant of licences; and considers the advantages and disadvantages of such a scheme.

OPTIONS FOR THE SCHEME

2. The Gazette notices inviting applications for licences include (inter alia) details of the initial payments licensees must make immediately on grant of licence. Hitherto these payments have been set at a low level to ensure they do not discourage applications; instead the main financial requirement from licensees in the early years of the licence is expressed in terms of ^{an} agreed exploration programme. The proposed initial payment for Seventh Round licences - as agreed with Treasury officials - is £250 per square kilometre in the licensed area (£62,500 for an average size block). This proposed payment is significantly higher than the initial payment for Sixth Round licences.
3. It would be a simple procedure to revise the initial payment so that a much more substantial payment was imposed on the grant of licence: it would be necessary only to stipulate the details of the payment in the Gazette notices.
4. There are several possibilities for deciding the application of a more substantial payment. It could be the same for all blocks licensed (this would increase the risks of potential applicants being discouraged from applying for any but the very best blocks); or it could be based on the acreage of the block (however the prospectivity or attractiveness of a particular block is not in general related to its size); or it could vary from geographic area to area; or it could be applied to one discrete category of blocks only.
5. The payment would have to be set at a level (or levels) which did not discourage applications, and in particular did not deter the smaller British exploration companies, and non-exploration companies new to the UKCS. The level would necessarily have to be assessed on an arbitrary basis, as there is no empirical evidence on which to rely.

A POSSIBLE SCHEME

6. The arrangements might be as follows:

- a. Licences for some, but not all, blocks would be offered on the basis that a more substantial initial payment (an 'additional cash bonus') would be required on grant of licence.
- b. The blocks to which the additional cash bonus would be applied would be those in the area of the companies' 'own choice'. This is a discrete category, and given the industry's welcome of the 'own choice' concept, it seems less likely to discourage applications than would the imposition of an additional cash bonus elsewhere on the UKCS.
- c. The additional cash bonus should be the same whatever the size of the block. Some blocks in the discrete area are very small (they vary from under 10 square kilometres each), and it has to be recognised that the one rate of payment may deter applications for these ^{small} blocks: however, only experience can tell how significant this factor will be overall.
- d. The additional cash bonus might be set at £4 million, which is the approximate cost of a well in the North Sea. The figure is assessed on the basis that applicants would expect to have to offer to drill at least one well to obtain the licence.
- e. Companies would additionally be required to drill at least one well to earn the right to continue the licence after the initial term, which would probably be of six years' duration.

ESTIMATE OF INCOME

7. It is difficult to assess with real confidence what the level of response would be for blocks to which a price tag of £4 million is attached. Companies have, however, welcomed the concept of an 'own choice' area in the northern North Sea, and it seems unlikely that the larger companies will be entirely discouraged by the price tag. We think it not unreasonable to assume that applications would be received for perhaps 20-25 blocks in the 'own choice' area, producing revenue of £80 million to £100 million. If more blocks were awarded from the area, the amount would of course be higher.

3. Provided that decisions can be taken fairly soon on the definitive arrangements for the Round, the licences should be granted and the payments accordingly received, in the Financial Year 1980/81.

ADVANTAGES AND DISADVANTAGES OF THE 'ADDITIONAL CASH BONUS' SCHEME

9. The advantages are:

i. It would bring in more money at an early date than would the present form of licensing with fairly low initial payments.

Because the scheme could be readily grafted onto the Seventh Round preparations, the money should be available in the Financial Year 1980/81.

ii. It would avoid constraints on Ministerial support for other important UKCS policies.

10. The disadvantages are:

a. The scheme could reduce the exploration effort; and

b. Small British companies, and those new to the UKCS, would be at a disadvantage in trying to find the money for the 'additional cash bonus' (but there should be adequate opportunities for them outside the 'own choice' area).

However, these disadvantages would be far less substantial than with cash bidding.

-7 April 1980



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NE B
Energy

10 DOWNING STREET

From the Private Secretary

B/F 17.3.80

SIR KENNETH BERRILL

Auctioning of 7th Licensing Round

There has been an exchange of correspondence between the Secretary of State for Energy and the Chancellor. on the above subject culminating in Mr. Howell's letter of 7 March. This comes down against auctioning, and proposes that the 7th round should be larger than 70 blocks.

The Prime Minister has from time to time expressed the view that it would be worth auctioning in order to raise funds for the Exchequer, and E Committee last October did of course decide that the licensing round should be confined to 70 blocks. Against this background, I would be grateful for any comments you may have.

I am sending a copy of this minute to David Wright (Cabinet Office).

~~M. A. PATTISON~~

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10 March 1980

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Qa 04967

To: MR LANKESTER
From: SIR KENNETH BERRILL

Auctioning of 7th Licensing Round

1. You asked for CPRS ^{4.2.80} comments on the Ministerial correspondence on the 7th Licensing Round. Mr Howell in his letter to the Chancellor comes down against auctioning broadly on the basis of the following arguments:
- (i) cash bids would be at the expense of drilling activity;
 - (ii) cash bidding would reduce the Secretary of State for Energy's discretion in awarding licences;
 - (iii) cash bidding would favour tax paying companies because of tax offsets;
 - (iv) licences could not be awarded in 1980/81 because of the need for consultation with the industry;
 - (v) small companies, and particularly British companies, would be at a disadvantage.
2. Taking these arguments in sequence:
- (a) it seems ingenuous to believe that oil companies allocate an immutable lump of capital to United Kingdom Continental Shelf activity and that cash bids for a 7th Round would therefore be at the expense of other UKCS exploration and development. The major oil companies look at their exploration programmes on a worldwide scale. Around the rest of the world the majors are seeing their supplies being eroded by the rapid growth in direct sales by the producer countries to consumer nations. There must be flexibility to channel extra funds to a proven oil producing area like the UKCS offering secure access to oil. In short, if the prospects are attractive the funds will be forthcoming.

CONFIDENTIAL

(b) Mr Howell's arguments in (ii), (iii) and (v) are undermined if only a few of the better blocks were to be auctioned and the remainder allocated in the normal discretionary way. We have done this before. In the 4th Round, 15 blocks were offered for auction and of the total bids received amounting to some £135m., £123m. was accounted for by only 3 blocks. Therefore, if say the 10 most attractive of the 70 blocks available were to be auctioned it seems very likely that this would attract the bulk of the money on offer. Small British companies could be favoured in the remaining 60 blocks. If the auctioned blocks favoured the companies with tax paying companies then this would ensure that the best blocks were being allocated to companies which had already proved their technical competence in bringing fields into production.

*Amendment from
Sir K. Bevil's office*

(c) Given that we have already had experience of auctioning in the 4th Round, Mr Howell's assertion in (iv) that it would take more than a year 'to formulate suitable arrangements' seems hardly credible.

Size of the 7th Round

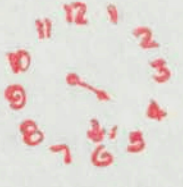
3. At E Committee yesterday it was agreed that if Mr Howell wanted to return to his plea for more than 70 blocks he would put a fresh paper to E. It is no surprise that the oil companies' negotiating stance is for a larger round since they like to have allocated undrilled acreage 'under their belts'. But the CPRS still finds convincing the arguments put forward for a 7th Round of 70 blocks because (a) of the need to encourage exploration in existing acreage (the latest Brown Book puts reasonable reserves in future discoveries on existing licences at 300-750m. tonnes and those on the remainder of the UKCS at 550-1000m. tonnes); (ii) the smaller the round the greater the likely participation by British companies; and (iii) pace Mr Howell, a larger round will not necessarily lead to greater drilling activity over the next few years and would restrict our ability to offer attractive acreage in future rounds.

4. We understand that the Chancellor, also, finds the arguments put forward by Mr Howell less than convincing and will be minuting the Secretary of State for Energy suggesting that auctioning of licences be discussed at E.

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

KB

12 MAR 1980



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Mr. Duguid



Prime Minister Energy 2
You should be aware that
Trammy and Energy
disagree on whether there
should be
auctioning in

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

[Handwritten signature]

(Ken Benn's
note at Flug A
sides strongly
with the Treasury)

12 March 1980 the 7th Round.

This will need to
come to E, along
with the size of
the round.

CASH BIDDING FOR THE SEVENTH ROUND OF OIL LICENCES

Thank you for your letter of 7 March about the possibility of auctioning the Seventh Round of oil licences.

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First, I am most grateful for the detailed consideration which you and your Department have put to this subject. Your suggestion for an 'additional cash bonus' scheme for the 'own choice' blocks is a helpful and constructive idea. Nevertheless, I am sorry to have to say that I am still not convinced that there should not be cash bidding for at least a substantial number of the specified blocks as well as for the 'own choice' blocks.

I recognise your concern that competitive cash bidding would make it harder to implement our general policies for the North Sea, such as full and fair opportunity for British industry and the security of UK oil supplies. But I wonder whether the fears here are not exaggerated. Companies will be kept on good behaviour by their fear of what might happen to their applications in future licensing rounds. No company in its right mind would act against the Department's wishes in respect of a licence acquired through a cash bid since it would have no guarantee that in future licensing rounds the Department would not revert to the old discretionary system and penalise it for its misdeeds. The incentive to conform with Government policies could be strengthened by subjecting only a proportion of the Seventh Round licences to cash bidding with the remainder being issued under the normal discretionary system. This, coupled with a statement that while cash bidding will be a settled feature of licensing rounds, future rounds are likely to contain also discretionary awards, ought to keep potentially troublesome companies in check.

/ I also

The Rt Hon David Howell MP



I also recognise the need to give British companies the fullest opportunity to participate in the round. But to rule out cash bidding on this ground would be tantamount to subsidising the British companies' concerned at the Exchequer's expense. Furthermore, I am not convinced that a cash bidding system could not be combined with elements of the discretionary system so that you were free to accept or reject bids in a way which permitted British companies to be given the fullest opportunity to participate in the rounds. Certainly our decisions on awards would need to be defended before the PAC, but I suspect that the Committee would look more favourably on such a system than they would on a wholly discretionary system of awards, which they have criticised in the past.

The third problem, referred to in annex A of your letter, is that the need to formulate suitable arrangements for cash bidding would mean that the licences could not be awarded in the financial year 1980-81 so that receipts would not be received in that year. The arrangements for a licensing round are undoubtedly complicated but surely if we pressed ahead with maximum speed, most of the awards could be made within the next 12 months. The industry have already been consulted in general terms about the possibility of introducing a criterion into the licensing conditions which would afford companies the opportunity to offer cash premia for offshore blocks and would allow you to take such offers into account in assessing applications.

As I said earlier, the proposal for an additional cash bonus scheme for the 'own choice' blocks is a helpful one. But it does have the weakness that no-one can know whether the price chosen for the blocks is the right one. It seems to me that the only way of checking that it was so would be to auction off these licences as well.

Turning to your proposal for a larger round, I certainly would be willing to reconsider this if you thought it essential to help the success of a round which included an element of cash bidding.

You will see from this that I am not convinced that there should not be a substantial element of cash bidding for both the specified and 'own choice' blocks in the Seventh Round. Could I suggest that if you are still unconvinced, you should circulate a paper to the appropriate Ministerial Committee so that decisions can be reached quickly and the detailed arrangements for the round promulgated.

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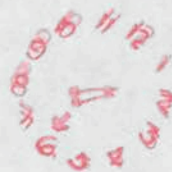


I think that it would be helpful if your paper covered the case for cash bidding for both specified and 'own choice' blocks and for applying the 'additional cash bonus' scheme to the specified as well as to the 'own choice' blocks.

I am sending a copy of this letter to Members of E Committee, the Secretary of State for Scotland, to Sir Kenneth Berrill and to Sir Robert Armstrong.

[Handwritten signature]
(G.H.)

112 MAR 1960





Energy

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

CONFIDENTIAL

The Rt Hon David Howell MP
Secretary of State for Energy
Thames House South
Millbank
LONDON

18 March 1980

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SEVENTH ROUND OF OIL LICENSES

Thank you for copying to me your letter of 7 March to the Chancellor on auction licensing and the size of the Seventh Round. I have also seen Geoffrey Howe's reply of 12 March.

As the letters indicate, there are very complex issues to be considered here and apart from the revenue questions that arise I, for my part, have to bear in mind the impact of any moves on the onshore oil-related industry and also the impact on the fishing industry. I therefore support Geoffrey Howe's suggestion that the best course would be if you could circulate a paper as a basis for discussion within the appropriate Ministerial Committee.

I am copying this letter to Geoffrey Howe, Members of E Committee, Sir Kenneth Berrill and Sir Robert Armstrong.

GEORGE YOUNGER

19 MAR 1960

