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Energy

~~Prime Minister~~

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To note - especially implications for the budget.

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Econ Policy
cc Public Expenditure Pt7

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PRIME MINISTER

NORTH SEA OIL OUTPUT

The Department of Energy's latest estimates of North Sea oil show output rising somewhat more slowly over the next few years than the estimates made last autumn. Estimation of the oil flow is, inevitably, highly uncertain but, while the precise figures are debatable, there are quite strong reasons for revising down the earlier ones. There have been technical difficulties in bringing some of the newer fields into production, revised production profiles from the companies operating at Forties and Dunlin and the recently announced restriction on flaring.

2. The two estimates are compared in the table below:-

Total North Sea Oil Production* (m tonnes)

	1979	1980	1981	1982	1983	1984	1985
December 1979 Forecast	77	86	101	110	117	126	127
September 1979 Forecast	77	95	110	122	130	131	128

(* including Natural Gas Liquids)

Over the years to 1983 the reduction amounts to about 40m tonnes.

3. We are, of course, already considering the case for slowing down the oil flow in these years in order to spread the benefits

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further into the future. These new output estimates show that the peak is a little further away than we thought. But there still is a peak and we shall need to consider the implications of it when we resume our discussion of depletion policy.

4. More immediately, however, the lower production forecasts would have important implications for the trade deficit and the tax flow from North Sea operations. In themselves they imply an addition of around £900 million to the visible trade deficit in 1980 (though, because of reduced earnings by foreign operators, the adverse effect on the current account will be somewhat less). Their effect on tax revenues from North Sea operations is likely to build up fairly slowly, but to reach very substantial amounts by 1983-84. In that year it could offset the addition to revenues expected to arise from the increase in the oil price since the autumn. In 1980-81 the reduction in North Sea tax revenues attributable to the lower output forecasts could be of the order of £200m and in 1981-82 £500m. The net effect on the PSBR would differ from this because of changes in other tax flows, and account would also need to be taken of the effects of the higher oil prices. These ramifications will be examined in the economic forecasts now being prepared; but if the new forecasts were fulfilled these reductions in the projected oil flow would in themselves add to the serious budgetary problems we face in 1980-81 and 1981-82.

5. Since these revisions are relevant to the discussion of public expenditure at Cabinet on January 24th, I am circulating this minute to all our Cabinet colleagues. David Howell rightly emphasizes that all the figures I have quoted are inevitably imprecise; and should ideally be expressed in ranges rather than in single figures. But he agrees with me about the importance of alerting colleagues to the main point.

G.H.

(G.H.)

21? January 1980

21 JAN 1980