

Subject filed on Energy Policy

of the Director  
of the Institute



Treasury Chambers, Parliament Street, SW1P 3AG  
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Prime Minister  
mainly to note. Should I  
say that you have no  
objection to an inter-  
connected  
market for N. Sea pricing  
policy, as suggested  
by the Chancellor?

Yes  
not

PRIME MINISTER

UK OIL POLICY: REFINERY AND DISPOSAL STRATEGY

Play A

I have seen a copy of David Howell's minute of 28 January to you about the report on oil refinery and disposal policy. While I do not disagree with David's conclusion, which as he says has been endorsed by colleagues, I would like to make two comments on his minute:

(i) As David Howell says in paragraph 4 of his minute, some reliable oil exporters can in today's conditions demand a straightforward monetary premium for their oil. The UK has so far taken the view that our interest in a healthy international economy, our international obligations and our interests as a major consumer of energy deny us that option.

I do not by any means suggest that we should necessarily alter our present policy of linking the price of North Sea oil to the term prices of the comparable African producers; and we must of course avoid any action which would certainly increase world oil prices in a way which would be against our economic interests. But the price obtained for North Sea oil has a direct impact on the PSBR through Government take from the North Sea and less significantly through BNO's revenues.

/In view of



In view of the importance of maximising Government take and keeping down the PSBR, I believe it would be timely if officials from the Department of Energy, Inland Revenue, Treasury and the FCO (and perhaps BNOB) could review our North Sea pricing policy in order to check that we are not missing any legitimate and sensible opportunities here.

(ii) Paragraph 5 of David Howell's minute refers to my scepticism about the creation of substantial additional reserve production capacity. This understates my position. The creation of reserve production capacity would be very expensive and if achieved through production cutbacks, would reduce Government tax take from the North Sea in the short and medium term thereby increasing the PSBR. I have already told David Howell that I would see the very greatest difficulty in any policy of production cutbacks from 1982 because of the consequences for the PSBR, which would be in clear contradiction to our general economic and monetary strategy. The latest forecasts of Government take from the North Sea over the next few years are lower than expected, partly as a result of lower production forecasts. This makes the difficulties of production cutbacks even greater. (The table attached shows the progressive decline in the forecasts of oil production over the next few years; revised figures on North Sea tax take will be available at the time of the Budget.) As I have told David Howell and other colleagues, I see little prospect of Treasury agreement to the creation of additional reserve capacity if it involves any adverse consequences for the PSBR.

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2. I am sending a copy of this minute to the Foreign Secretary, the Secretaries of State for Trade, Energy, Industry, Employment, Scotland, Sir Robert Armstrong and Mr. Ibbs.

A handwritten signature in black ink, appearing to be "G.H.", written in a cursive style.

(G.H.)

6 February 1981

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TABLE I: NORTH SEA OIL PRODUCTION FORECASTS\*

m. tonnes

|      | JUNE<br>1979 | OCT<br>1979 | MARCH<br>1980<br>(MTFS) | JUNE<br>1980 | INDUSTRY<br>ACT<br>(NOV. 1980) | JANUARY<br>1981 | FEBRUARY<br>1981 |
|------|--------------|-------------|-------------------------|--------------|--------------------------------|-----------------|------------------|
| 1979 | 76           | 77          | 77                      | 77           | 77                             | 77              | 77               |
| 1980 | 94           | 95          | 83                      | 81           | 81                             | 80              | 79               |
| 1981 | 106          | 110         | 99                      | 91           | 91                             | 88              | 88               |
| 1982 | 125          | 122         | 110                     | 103          | 103                            | 102             | 101              |
| 1983 | 128          | 129         | 117                     | 112          | 113                            | 112             | 105              |
| 1984 | 131          | 131         | 126                     | 119          | 121                            | 118             | 110              |
| 1985 | 127          | 129         | 126                     | 115          | 117                            | 120             | 118              |

\*including natural gas liquids, measured in million tonnes of oil equivalent

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Energy No 6  
Policy



cc FCO  
TRADE  
IND  
HMT  
SO  
CO  
CPRS  
DIM

10 DOWNING STREET

From the Private Secretary

9 February 1981.

UK Oil Policy: Refinery and Disposal Strategy

The Prime Minister has now considered your Secretary of State's minute of 28 January. She has also seen the Chancellor of the Exchequer's minute of 6 February.

The Prime Minister has noted the main measures that are in hand and the further possibilities that are to be looked at for improving the UK's security of supply. She has no objection to the Chancellor's proposal for an inter-departmental review of our North Sea pricing policy.

I am sending copies of this letter to George Walden (Foreign and Commonwealth Office), Stuart Hampson (Department of Trade), John Wiggins (HM Treasury), Ian Ellison (Department of Industry), Richard Dykes (Department of Employment), Godfrey Robson (Scottish Office), David Wright (Cabinet Office) and Gerry Spence (Central Policy Review Staff).

TH

Julian West, Esq.,  
Department of Energy.

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