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Energy

PRIME MINISTERAn Eighth Round of Offshore Licensing  
(E(81) 65)

## BACKGROUND

The Secretary of State for Energy proposes, in E(81) 65, a "fairly small" eighth round of licensing of up to 40 blocks, described in his paragraph 9 and shown on the map attached to his paper.

2. The aim in going ahead with an early new round is to retain oil company interest, to keep up the momentum of exploration, and to rebut any notion that the Government is nervous of testing the attractiveness of the United Kingdom Continental Shelf under the new tax regime. For the reasons explained by the Secretary of State for Energy in his paragraphs 4 and 5, the blocks to be offered would be mainly in high risk and unexplored areas. Because of that, and to avoid the risk of having the round fail, he strongly recommends against demanding cash payments for the blocks. He judges that substantial revenue from cash premia should be obtainable from further licensing rounds in two or three years time.

3. If the Committee approve his proposals, the Secretary of State for Energy wishes to make a preliminary announcement in July to indicate the areas to be included in the round. Invitations for applications would be issued in the autumn with a closing date of December 1981/January 1982 and awards in the late spring of 1982.

4. The Chancellor of the Exchequer may well question the implications of these proposals for his 1982 Finance Bill which will include permanent legislation for the North Sea fiscal regime (probably the continuation of the Supplementary Petroleum Duty which, under present legislation, is due to expire in June 1982). The risk is that, under the Secretary of State for Energy's proposed timetable, the major oil companies would be well placed to engineer a disappointing response to the eighth round proposals, to blame this on the present tax regime, and so make it much harder to defend the tax

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proposals for the 1982 Budget. If there is force in these fears, there would be a case either for deferring applications in an eighth round until after the 1982 Finance Bill or for making the closing date for applications December 1981 rather than January 1982 - this would give Ministers more time to assess the response to the eighth round before taking final decisions on the future North Sea tax regime to be laid down in the 1982 Budget.

5. There is also the question of whether it is sensible to go ahead with an eighth round at all at this time. The seventh round is barely complete and the oil market is depressed. This could point to some delay even if there were no financial complications.

6. The Chancellor of the Exchequer might also question the recommendation that the eighth round should not be used to raise cash. The seventh round raised £210 million. The blocks on offer under an eighth round may well be far less attractive, but some contribution from them would be helpful in reducing public expenditure. The possibility might be considered of some form of auction or tender, rather than requiring a fixed premium as in the seventh round.

HANDLING

7. After the Secretary of State for Energy has introduced his paper you will wish to invite the Chancellor of the Exchequer to comment. Mr. Fletcher, who is representing the Secretary of State for Scotland, will wish to comment on the implications for the offshore supply industry (as will the Secretary of State for Industry) and on any problems which the choice of blocks might raise for the Scottish fishing industry; and the Secretary of State for Defence will wish to say whether the choice of blocks raises any defence problems.

8. The main questions which you will wish to cover in the discussion seem to be:-

- (i) Whether the case is made for an early further round of licensing.
- (ii) If it is, whether the proposed timing of the applications is satisfactory in relation to the 1982 Finance Bill.
- (iii) Whether an attempt should be made to raise some cash from the licensing and if so, how?

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CONCLUSIONS

9. In the light of the discussion you will wish to record conclusions on the three main questions listed above. If there is to be an early eighth round, you will wish to invite the Secretary of State for Energy to clear the details and the terms of his announcement with the Chancellor of the Exchequer and with the other Ministers with a direct interest.

RA

(Robert Armstrong)

19th June 1981

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