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P.0720

PRIME MINISTER

An Eighth Round of Offshore Licensing

E(82)32 and 33

My brief to you of 7 April sets out the background to these two papers. Discussion of them in E Committee had to be postponed, and in the intervening period the Secretary of State for Energy has had a meeting with the Chancellor of the Exchequer which resolved most of the points of difference between them. The only issue on which they did not reach agreement was the question of the timing of a preliminary announcement. The Secretary of State for Energy remains of the view that an announcement should be made as early as possible (which would now be early in May) so that the oil companies can use the 1982 summer season to the fullest possible extent for the preliminary surveys on which they will base their applications in the autumn. The Treasury, on the other hand, argues that an announcement should be delayed until after the Committee Stage of the Finance Bill (ie late June/early July) to deny the oil companies the possibility of threatening a boycott of the eighth round as a gesture of protest against the tax proposals in the Bill.

2. The other outstanding points arise on the CPRS paper, E(82)33. The first concerns the allocation of exploration blocks. The Chancellor of the Exchequer has now accepted the proposals in the Secretary of State for Energy's paper that "mature" oil blocks should be offered for auction by closed tender bidding, and that other blocks should be allocated by licence involving a sliding scale of rentals (as with the mature oil blocks) but no initial payments. The CPRS, on the other hand, argue in paragraphs 8 and 9 of their paper that the closed tender system should apply to all blocks.

3. Second, the CPRS argue in paragraphs 5-7 of their paper that a gas round should not be offered at the same time as an oil round (as the Department of Energy proposes) and that instead an announcement should be made at the same time as the oil round that a gas round will be offered later in the year. The CPRS is concerned that a gas round should be delayed until later in the summer when the report which officials are preparing on ways of controlling gas exports will be available.

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Neither the Department of Energy nor the Treasury agree with the CPRS on this; both are content that an early gas round can be allowed to go ahead independently of decisions on the control of gas exports.

4. Finally, there is one point which you yourself may wish to raise. The Secretary of State for Energy's intention is that the British Gas Corporation should be allowed to bid for gas blocks if they wish to do so. You may wish to ask whether this would be consistent with the Government's privatisation policy and the decision taken to force the BGC to sell their oil interests.

HANDLING

5. You will want to invite the Secretary of State for Energy to introduce his paper. He is likely to concentrate in his opening statement on the question of timing of an announcement. You might then invite the Chancellor of the Exchequer and Mr Sparrow to comment on the aspects of the Secretary of State's proposals with which they disagree. Finally, the Secretaries of State for Industry and Scotland and the Minister of Agriculture may have comments from the point of view of the offshore oil supply industry and the fishing industry.

CONCLUSIONS

6. You will wish to record conclusions on:-

- i. the timing of a preliminary announcement;
- ii. whether there should be any separate arrangement for the licensing of gas blocks as proposed by the CPRS;
- iii. whether the blocks should all be subject to the closed tender procedure as the CPRS propose;
- iv. whether the British Gas Corporation should be allowed to bid for gas blocks if they wish to do so.

PLG
P L GREGSON

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