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MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

AN EIGHTH ROUND OF OFFSHORE LICENSING

Memorandum by the Secretary of State for Energy

INTRODUCTION

This paper sets out proposals for the nature, size and timing of an eighth round of offshore licensing. In brief I propose to launch this year a fairly small round specifically aimed at pushing exploration into new areas.

OBJECTIVES OF ROUND

2. My objectives in proposing an early new round are: to retain oil company interest in the UKCS; to maintain the momentum and extend the area of exploration and thereby assist evaluation of UKCS reserves; and (if finds are made) to make possible an addition to our oil supplies at a time when they would otherwise be declining.

3. An early round would also rebut any suggestion that we are reluctant to put to the test the attractiveness of the UKCS under the new tax regime.

CONSTRAINTS

4. It would not be possible to raise substantial early revenue from this round, as was done so successfully from the Seventh

Round in the mature oil province of the northern North Sea. The companies' interest in blocks in that area for which they were prepared to pay a premium has been satisfied for the time being; there was little competition for individual blocks and all 42 applied for were licensed. There is no other acreage immediately available of sufficient attractiveness to command immediately further substantial revenue raising from licensing should be possible in two or three years' time.

5. Detailed examination of areas currently available for licensing has shown that:

- i. there are a few blocks (5 or 6) in the English Channel and the Inner Moray Firth for which some companies might pay a modest premium, but environmental constraints and the restrictions we have had to accept for the Seventh Round to accommodate non-oil interests e.g. fishing, defence and shipping make it impracticable to consider further licensing there for the present;
- ii. the mature gas province, the Southern Basin, is not of immediate interest to the companies, who are already sitting on a substantial number of blocks awaiting an incentive to carry out work in the form of higher gas prices (whether arising from a change in BGC's monopsony position or otherwise). Some companies have shown interest in one or two blocks in Morecambe Bay, but there would be advantage in holding these back for a possible future 'gas round';
- iii. the South Western Approaches and North West Shetlands areas have not yet been proven; many blocks are under licence and have not yet been drilled.

We are left with new and, therefore, high risk areas which would not command a premium. While the oil companies could not be expected to volunteer offers of premia, our detailed discussions with a number of them, including Shell, BP, Union, BNOG and Esso, have supported this assessment.

6. These discussions have also confirmed my view that further substantial early revenue from licensing should be obtainable but not before 1983/84. By that time additional drilling on areas licensed in earlier rounds will have provided more information which should lead to the identification of new prospects and enhance the value of nearby acreage. Additionally, by 1983 changes in gas pricing and marketing should have revived interest in the mature gas province of the Southern Basin and added value to blocks in that area.

7. The worst situation would be to have an Eighth Round fail. If we demanded premia for high risk blocks in new areas the response would probably be minimal; this would undoubtedly be construed as a rejection of the new tax regime. Without premia, on the other hand, I would, in the light of the discussions with the companies, confidently expect a satisfactory level of response for such a round, although this may come mainly from the larger companies.

8. The smaller British companies will generally be heavily committed technically and financially on Seventh Round licences. These companies would not find the Round particularly attractive, because the areas are high risk, though as they are not in deep and unduly exposed waters some might, in the absence of premia, be prepared to have a go. They are unlikely to be concerned about the launching at this time of a round primarily aimed at the larger oil companies.

SCOPE AND TIMING

9. The proposed Round would cover up to 40 blocks which would be selected in the following areas:

Unst, Fair Isle and East Orkney Basins
 Firth of Forth Approaches Basin
 West Orkney Basin
 Celtic Sea

These general areas are shown on the attached map; clearance of the specific blocks with interested Departments will be dealt with separately by my officials. A round of this size would not be likely to over-stretch oil company resources e.g. drilling rigs.

10. On timing, I propose a preliminary announcement in July indicating the areas to be included in the Round. The invitation to apply would follow in the Autumn, with a closing date in December 1981/January 1982 and awards in late Spring 1982.

11. Presentationally, it will be necessary to explain clearly the different flavour of the Eighth Round as compared with the Seventh. I shall stress that our objective in this 'frontier' round is to push exploration into new areas so that we can obtain a fuller picture of our national resources.

Department of Energy
 12 June 1981

D.A.R.H.

