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CABINET
MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

SEVENTH ROUND LICENSING: SIZE
Memorandum by the Secretary of State for Energy

INTRODUCTION

This paper has been prepared in response to the recent decision by 'E' Committee (E(80)9th Meeting) that I should re-submit the case for increasing the number of blocks to be allocated in the Seventh Round. The paper reviews earlier discussion of the matter, examines the issues most relevant to determining the size of the Round, and recommends that the arrangements should afford scope for the licensing of more than 70 blocks.

BACKGROUND

2. When the arrangements for the Seventh Round were discussed in October 1979 (E(77)13th Meeting), I proposed that 100 blocks should be licensed. Colleagues felt that having regard to (i) depletion considerations; (ii) the availability of resources, particularly drilling rigs and (iii) the possibility that a larger Round would result in a greater share of licences going to non-British companies, the balance was in favour of a Round of 70 blocks.

3. This decision was included in the proposals for the Round which I announced in December. Since then, everything I have heard from the industry and from independent analysts has reinforced my view that the Round should be larger and that it would be advantageous to re-examine the earlier decision.

DEPLETION

4. Colleagues have recently agreed (E(80)9th Meeting) that it is necessary to try to extend the life of our indigenous oil and gas resources, and that part of the strategy should be to reduce oil

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output in the next few years. Colleagues also agreed that it would not be inconsistent to encourage the maximisation of exploration, possibly by increasing the number of blocks to be licensed in the next Round. I put it more strongly. It is essential that we increase the pace of exploration in new areas to find and develop reserves so that they will be coming onstream in time to moderate, with production deferred from existing discoveries, what would otherwise be a rapid decline in production in the 1990's. We should allow for ten years between award of licences and first production; longer if the discoveries are made in the deeper water blocks we are including in the Round. The rate of success for exploration drilling is decreasing, and new fields are generally expected to be smaller than past discoveries.

5. If more oil were to be found than is currently assumed, we could use our development controls to delay production in the 1990's if we so decided.

AVAILABILITY OF RESOURCES AND RIGS

6. It has been suggested that companies might not have the resources to handle a Round larger than 70 Blocks. They have the financial and manpower resources, and demands on these resources are relatively small during the exploration stage. The exploration rig market has recently tightened, but a modest increase in the size of the Round would have little impact on the amount of drilling in the next two years.

FOREIGN SHARE OF AWARDS

7. Some concern has been expressed that a Round larger than 70 blocks might result in a smaller proportional British share. I am satisfied this would not now be the case. I have stressed informally to potential applicants the importance of a sizeable British content in the licence groups for the Seventh Round. This message has gone home. We shall be able to give full weight to the British content so long as we continue to retain our discretion over awards.

HOW BIG SHOULD THE ROUND BE?

8. If colleagues are satisfied, as I am, that the Round should be larger than 70 blocks, we need to consider how large it should be.

I have previously sought a definite number of blocks to be awarded. I now believe there would be advantage in adopting a more flexible approach. I should invite applications for 70 specified blocks, where we wish to encourage exploration (e.g. in deeper water blocks) on the assumption that we will- on the basis of experience - award about 50 of these. We should licence all of my selection that are applied for by competent applicants. In addition the companies will apply for some blocks in the company 'own choice' area in the Northern North Sea. As this is a new feature we cannot predict how many blocks will be applied for, but anything between 20 and 40 blocks is a possibility. This means we could have applications for anywhere between 70 and 90 blocks in all.

RECOMMENDATION

9. I recommend that we should take a more flexible approach on the number of blocks to be awarded, and not regard the previous limit of 70 blocks as a ceiling. I accordingly seek agreement from the Committee, that I should be able to announce that depending on the response to the Round. I would be prepared to consider awarding more than 70 blocks.

D.A.R.H.

Department of Energy
31 March 1980.

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