

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

E(80)149

12 December 1980

COPY NO 55

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

BNO: TIMING OF CLYDE OILFIELD DEVELOPMENT

Note by the Central Policy Review Staff

1. In E(80)142 the Secretary of State for Energy restates the arguments in favour of delaying the Clyde field by only two years. However, he places more emphasis than before on the non-depletion policy arguments against a longer deferral and has negotiated an arrangement with BNO whereby the differential effect of a two and five year delay on the PSBR will be neutralised by Forward Oil Sales. Ministers may find it helpful to be reminded of the counter-arguments in favour of a five year delay.

Extending UK Net Self-Sufficiency

2. A five year delay would contribute more to the Government's wish to extend net self-sufficiency towards the end of the century. If the field is deferred by only two years then the first year's production will merely add to our net exportable surplus. Although the quantity is not major in itself (an estimated 6 million tonnes), any significant impact on the mid-80s production 'hump' must necessarily come from the cumulative effect of individual decisions spread across a number of fields.

Economic Adjustment

3. A five year delay would make a greater contribution to smoothing out the rise and fall of UKCS oil production and help moderate the pace and extent to which British industry is being forced to adjust to the nation's oil wealth. A decision to delay Clyde by five years, if interpreted as convincing evidence that the Government intended to implement a robust depletion policy, could also help ease the upward pressure on the exchange rate.

**CONFIDENTIAL**

The Price of Oil

4. Because oil prices are expected to rise by a higher rate than the development costs of the field, deferral carries with it a likely substantial economic gain; the longer the field development is delayed the greater the economic benefit. The Secretary of State for Energy's previous paper (E(80)98) estimated the economic benefit of a five year delay discounted at 5 per cent back to 1979 prices to be £110 million.

Effect on Employment

5. A two year delay would mean that the Clyde project would bring employment benefits - some 2000/3000 jobs - in 1984 but at a time when employment should be rising anyway; to help with the immediate problem Ministers would need to opt for no delay at all. The substantial economic benefit deriving from deferral referred to in paragraph 4 above when spread across the limited number of jobs involved must make this an extremely expensive form of job creation; clearly more cost effective schemes could be instituted.

Effects on Exploration

6. The argument that a decision to delay Clyde by five years could have a serious effect on exploration can, we think, largely be discounted. The excellent response to the Seventh Round and the current very tight market for exploration rigs shows that the UKCS remains an attractive, stable and profitable oil producing area. In any event, development lead times mean any oil discovered under the Seventh and subsequent licensing rounds could not come on stream until the UK production surplus has disappeared.

Discrimination

7. The Secretary of State for Energy's note draws attention to the unfortunate consequences that could ensue for BNOG if deferral of Clyde were to be interpreted as discrimination against a public sector corporation. However, if in due course, Ministers were to decide on the basis of the depletion policy arguments set out above also to delay Philips' T Block (the only other significant field not covered by the Varley assurances) such charges could be shown to be unfounded.

2

**CONFIDENTIAL**

**CONFIDENTIAL**

Platform Supplies

8. The Secretary of State's paper points out that a significant reduction in the number of platform yards is inevitable regardless of the decision on Clyde. But there are other platform orders in the offing for post 1982 in addition to Clyde (although it cannot be guaranteed that they will come to the UK), as well as smaller structures for the gas gathering pipeline, Morecambe Bay and Rough.

Effects on BNOG

9. A five year delay on Clyde will clearly have a significant effect on BNOG's development capability. However, in any conflict between short and longer term objectives it is usual for the difficulties entailed in sacrificing the short term alternative to appear more specific and pressing.

PSBR

10. As the Secretary of State for Energy's paper points out, the PSBR benefit deriving from a five rather than two year delay can be neutralised by the appropriate level of forward oil sales. However, it is not clear why such forward oil sales cannot be achieved irrespective of what decision is reached on the deferral of Clyde.

Conclusion

11. A decision on whether to delay Clyde by five or two years undoubtedly raises difficult problems. However, production cut-backs as a means of achieving depletion policy objectives would raise more difficult problems than development delays. The former would have a more capricious effect on the oil companies; would be less economically justifiable (the capital having already been sunk); and would have an immediate effect on tax receipts. Ministers will therefore wish to consider whether a two year delay is consistent with an effective depletion policy, the principles of which they endorsed earlier in the year.

Cabinet Office  
12 December 1980

3

**CONFIDENTIAL**

380

150

151