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E(80) 12th Meeting COPY NO 56

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at
10 Downing Street on
THURSDAY 3 APRIL 1980 at 11.00 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon William Whitelaw MP
Secretary of State for the
Home Department

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

The Rt Hon Sir Keith Joseph MP
Secretary of State for Industry

The Rt Hon James Prior MP
Secretary of State for Employment

The Rt Hon John Nott MP
Secretary of State for Trade

The Rt Hon David Howell MP
Secretary of State for Energy

The Rt Hon John Biffen MP
Chief Secretary, Treasury

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Sir Ian Gilmour MP
Lord Privy Seal

Mr Alexander Fletcher MP
Parliamentary Under-Secretary
of State, Scottish Office

Mr J R Ibbs
Central Policy Review Staff

SECRETARIAT

Sir Robert Armstrong
Mr P Le Cheminant
Mr P Mountfield

SUBJECT

SEVENTH ROUND OF OIL LICENSING

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SEVENTH ROUND OF OIL LICENSING

Previous References: E(79) 13th Meeting, Item 4 and E(80) 9th Meeting, Item 1

THE COMMITTEE considered two memoranda by the Secretary of State for Energy (E(80) 31 and 32) about the size and method of allocation of the Seventh Round of Offshore Oil Licenses. They also considered a letter dated 27 March from the Secretary of State for Energy about Oil Depletion Policy.

THE SECRETARY OF STATE FOR ENERGY said that he had been encouraged by the Committee's earlier discussions on depletion policy to re-open the question of the size of the seventh round of licenses. The Committee had originally decided on a round of approximately seventy blocks. But blocks allocated in the seventh round would not come into production for nine or ten years, by which time the depletion policy would require a higher rather than lower rate of production. Some oil company investment plans were now being held up, and it was desirable to make an early announcement about the size of the round and to decide on the method of allocation. In his view this should continue a traditional discretionary system of allocation with a new arrangement whereby the oil companies' would be able to ask (and pay) for particular and additional blocks of their own choice. His second paper concluded that, despite the attractions of an 'auction' method of allocation, the best solution for the seventh round lay in retaining the traditional system but perhaps levying a higher charge - of £4 million per block - on licenses sought under the 'own choice' system. A licensing round in this form might bring in £80 million-£100 million to the Exchequer.

In discussion, the following main points were made -

- a. the Committee's original decision on the size of the round had been unduly cautious. There was no inconsistency between a somewhat larger licensing round and a conservationist depletion policy on existing licenses. A larger round would give a useful industrial boost, although the full effects on British industry would not be felt for about two years. It would give some

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encouragement to members of the European Community, although there would be no promise that additional blocks would be allocated to European companies. It would be welcome to the oil companies, who had been adversely affected by the Budget decisions on the timing of Petroleum Revenue Tax payments;

b. an increase in the size of the round would allow some experiment to be made in the method of allocation. There was much to be said for a policy of auctioning in the long run, as a means of maximising the return to the Exchequer. In the immediate future, however, the oil companies had made their preparations on the assumption that the traditional licensing methods would be pursued. Many American companies had accordingly entered into consortium arrangements with British companies, expecting that a measure of preference would be given to consortia including British partners. It was particularly important to encourage further new British companies to enter the North Sea. An auctioning system tended to favour the well-established, and largely foreign-owned, oil companies. The cash bidding system proposed by the Secretary of State for the additional twenty blocks could be a useful compromise; but the proceeds might be largely offset against tax, and the ultimate additional revenue therefore small. It would be important to avoid any impression of favouritism over the allocation of licenses. The final decision on the choice of method was a highly technical one which should be left to the discretion of the Secretary of State after discussion with officials from the interested Departments;

c. the oil companies were understandably anxious for early announcements both on depletion policy (on which the Committee had already taken the relevant decisions) and on the size of the next round. An announcement of a larger Round could, however, be a useful card to play, in the context of the European Budget. No announcement should be made before the meeting of the European Council at the end of April. The Prime Minister might decide at

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that time to make it clear to our partners that we were considering a somewhat larger licensing Round. A more detailed announcement on the size and method of licensing could follow immediately after the meeting of the European Council, as could the postponed statement on Depletion Policy.

THE PRIME MINISTER, summing up the discussion, said that the Committee reaffirmed their earlier decisions on Depletion Policy. They agreed that the Seventh Round of oil licenses should contain seventy blocks allocated by the traditional method, and approximately a further twenty to be allocated by other means, to be chosen by the Secretary of State for Energy. They agreed that she might, depending on the course of negotiations, indicate at the forthcoming meeting of the European Council our intention of increasing the size of the Seventh Licensing Round. They agreed that more detailed statements about the seventh round and about depletion policy should be made following that meeting.

The Committee -

1. Invited the Secretary of State for Energy, in consultation with the Chancellor of the Exchequer, to make preparations for a Seventh Licensing Round of approximately ninety blocks on the lines indicated by the Prime Minister in her summing up.
2. Noted that the Prime Minister might indicate the British intention to extend the Seventh Round to about ninety blocks during the meeting of the European Council at the end of April.
3. Invited the Secretary of State for Energy, in the light of this, to prepare announcements on the size and method of licensing in the Seventh Round, and on Depletion Policy, to be made in public shortly after the meeting of the European Council, and to agree the exact timing of these announcements with the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer.

Cabinet Office
3 April 1980

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