

PILOT Economic Advisory Group
Meeting held at 10.30 am on 12 September 2003 at DTI, 1 Victoria Street, London

Present		Apologies	
Professor Alex Kemp	University of Aberdeen	David Morrison	Wood Mackenzie
Norman Selley	Amerada Hess	Sam Beckett	HM Treasury
Raymond Hall (Chair)	BP	Mary Sullivan	Inland Revenue
Norman Smith	Consultant	Mark Reeves	Shell
Philip Beckett	DTI	Julia Bell	Total
Mike Earp	DTI	Jamie Hamilton	BG
Ann Eggington	DTI	Ian Todd	DTI
Peter Haile	DTI	Barry Anderson	Total
Jim Munns	DTI		
Hooma Raza	DTI		
Simon Toole	DTI		
Roger Jelfs	ExxonMobil		
Steve Nicholson	Halliburton		
Martin Johnson	HM Treasury		
John Evans	Inland Revenue		
Edward Zamboni	Inland Revenue		
Roger Burrows	Petro-Canada		
Tony Wood	Royal Bank of Scotland		
Neville Howlett	Total		
Nigel Essex	UKOOA		

Introduction

Mike Earp welcomed members to the DTI. Ray Hall welcomed Tony Wood (Royal Bank of Scotland) as a new member of the EAG.

1. Updated Yet-to-Find Analysis

Peter Haile reviewed recent work undertaken by the DTI which built on previous analysis by the DTI and industry [*EAG/25/03 refers*]. Assessing yet-to-find reserves has been an ongoing process. The key messages were:

- New data from revised DTI YTF figures and 21st Round applications support the view that some 5 bboe of technically recoverable YTF reserves exist in the main North Sea area. This is towards the higher of industry's two average predictions in the PILOT exercise. Further upside potential may exist as new plays and leads are de-risked.
- Large prospects have been identified in the Round, a significant proportion of which are 'stratigraphic' in nature. The key to de-risking these to a drillable level is the need to acquire and interpret high quality seismic data.

- Considerable uncertainty still remains regarding West of Shetland YTF potential but recent downward revisions in DTI volumes show better agreement with industry estimates.

PH noted that substantial areas of the UKCS, particularly to the West of Britain, remained unexplored and unmapped, but that, as yet, the industry had shown little interest in these areas.

PH said he planned to present the results to UKOOA's Exploration Member Representative Team (MRT) on 22 September and would prepare a brief note for the Exploration Consultation Steering Group chaired by James Sassoon which meets on 29 September (**ACTION: PH;***[EAG/27/03 and EAG/28/03 attached]*)

2. UK/Norway Co-operation

RH presented a review of the status of Norwegian Tax Reform *[EAG/29/03 attached]*.

Exploration activity in Norway had fallen in recent years as it has in the UK. Fiscal barriers had made Norway unattractive for new entrants and work was being done by KonKraft to try to address these issues. A small UKOOA team would be visiting KonKraft later in September to share learning's.

3. Exploration Consultation - Non-tax work streams

Simon Toole reviewed the status of work being undertaken by the Non-tax Delivery Group and the Think Tank, both of which would be reporting to the Exploration Consultation Steering Group on 29 September. The issues being addressed were:

- Data Release: Industry were fully supportive of measures to i) accelerate release of proprietary seismic data; fund DEAL; and advertise spec arrangements at PESGB. The benefits would be a greater uptake in future license rounds and better quality applications making the UKCS a better place to invest.
- Fallow Initiatives and Licensing Rounds: The work group had tackled some sensitive issues and was moving towards a recommendation to extend the scope of the fallow discoveries initiative to include release of undeveloped multi-well discoveries, perhaps phased over a period and on a case by case basis. Timing of Licence Rounds and the related 'Promote Licences' were also being reconsidered to make this more efficient for the latter.
- Behaviours: Recommendations would include ways to make the voluntary code of practice work better, including raising the profile (letter from Minister) and re-launching the code to seek commitment from all licence holders, workshops to explain the code and its benefits, and a review of the monitoring process to give the code more effect
- Infrastructure: Access and data transparency have been a source of concern to new entrants and others. The group was split regarding whether access was a real issue or simply one of perception. Industry needs to develop a process to bring cases where access is denied or obstructed to the regulator's attention and, if necessary, to use the power of the Competition Act. Arrangements to improve data transparency had been put forward but had not yet been agreed by everyone.

ST was optimistic that the various work groups would make further progress on these issues before 29 September. **(ACTION: ST)**

4. Exploration Consultation – Analysis of Fiscal Options

Professor Alex Kemp reviewed his Monte Carlo analysis of the impact of a 25% uplift on exploration and appraisal. The analysis basically confirmed earlier work by Edward Zamboni and showed that a 25% E&A uplift would improve exploration IRR on average by some 2-3%, with a corresponding worsening of the Government's IRR. ME asked for the analysis to be performed showing uplift on exploration only. Industry members were concerned that if relief was not extended to appraisal the impact would either be much less or the relief would need to be much greater than 25%. Appraisal was part of the exploration process and industry representatives thought it would be difficult to differentiate between what were 'E' and what were 'A' expenditures. The possibility was discussed of targeting specific types of exploration, such as strat. plays or HPHT. John Evans noted there may be State Aid problems under European law where tax relief was targeted on one type of expenditure.

After a lengthy discussion it was agreed that AK would conduct further work to simulate the situation for a new entrant and to show the impacts of the application of uplift to exploration only, and of removal of the supplementary charge on profits. **(ACTION: AK)**

5. Industry Activity Survey

Nigel Essex reported that more than half of the field activity survey data had been submitted. Phil Beckett said he had recently sent the letter to all non-UKOOA members who were (potentially) field operators. It was hoped that the outstanding survey responses would be with Linda Stephen by 20 September or soon after. AK hoped that a preliminary set of aggregated data would be available in early October, and a near final set of data should be available ahead of the EAG meeting scheduled for 10 November. UKOOA and DTI would consult each other on their analysis of the new data before publishing the results.

6. Any Other Business

i) Norman Smith reported that the Industry Technology Facilitator (ITF) was looking for case studies of R&D expenditure to try to define what is Research and what is Development. He would appreciate hearing of examples to make them known to him.

ii) Tony Wood reminded members that the Royal Bank of Scotland conference would be held on 24 September and extended an invitation to all members of the EAG.

iii) RH noted that several industry figures would be speaking at an IIR conference on 25 & 26 November.

Date of Next Meeting: 10 November 2003, Location tbc.