Economic Advisory Group Meeting
at
UKOOA, 232-242 Vauxhall Bridge Road London SW1V 1AU
at 10.30 am on Tuesday 1 March 2005

Present:			
Ray Hall (Chair)	BP	Nigel Essex	OGIA
Rebecca Brown	Apache	Nick Briggs	Perenco
Norman Selley	Amerada Hess	Roger Burrows	PetroCanada
Simon Taylor	ChevronTexaco	Norman Smith	PVM
Philip Beckett	DTI	Xavier Ecomard	Total
Mike Earp	DTI	Neville Howlett	Total
Simon Toole (Item 4)	DTI	Agustin Rivara	UKOOA
Steve Nicholson	Halliburton	Mike Tholen	UKOOA
Jo Wakeman	HMT	Graham Kellas	Wood Mackenzie
John Evans	Inland Revenue	Rhodri Thomas (Item 3 by Telecom)	Wood Mackenzie
James Meadway	Inland Revenue		
Edward Zamboni	Inland Revenue		

Mike Tholen welcomed members to UKOOA's offices and explained that all UKOOA's Fiscal MRT members had been invited along with existing EAG members. Ray Hall took the Chair.

Item		**ACTION**
1	**Industry Activity Survey (EAG/4/05)**	
	Mike Tholen presented summary results of the annual industry activity survey results. • Total annual expenditures in excess of £9 billion in 2004 are likely to continue. Operating costs are up 12% to £5 billion but production is falling. This includes tariff costs which partly net off as income. Produced water and EU emissions trading scheme costs are new and added expenses for many fields. • Drilling costs are expected to increase 18% between 2003 and 2005, string years appeared similar over the period, but the number of development wells planned to be drilled is declining • Production was down in 2004 and the 4 million boepd target for 2005 will not be achieved but projections for 2010 are rising towards the 3 million boepd target which may still be attainable.	

2	**Wood Mackenzie Global Exploration Study 1994-2003 (EAG/5/05)**	
	Ray Hall and Graham Kellas presented the results of a recent study of global exploration from 1994 to 2003. State oil company 100% interests were screened out. The multi-client study covered 60 basins and 6000 wells and identified new resources of 59 billion bbl and 207 tcf yielding value creation of $126 billion assuming a long term oil price declining from $37/bbl to $22/bbl in 2007. The overall technical and commercial success rates were 32% and 17% respectively. The UK was 5th most active province for exploration over 10 years after Indonesia, Gulf of Mexico, Egypt and Argentina, and 6th in the last 5 years. Over the 10 year period the commercial success rate in the Southern Basin was 28% and over 40% in the last 4 years, but elsewhere in the UKCS the ten year average rate was 10%. Exploration has been declining worldwide despite recent increases in oil and gas prices. Suggested reasons are: focus on development; risk assessment following 9/11, better 3-D mapping; mega-merger digestion. MT Questioned whether the commercial success rate of 10% represented the true long run picture; an additional explorationist insight is required.	
3	**Review of UKCS Exploration Activity 2004 (EAG/6/05)**	
	Rhodri Thomas presented (via telecom) the review of UKCS exploration activity in 2004. An upturn in E&A activity took place in 2004 notably in the CNS. OilExco was the most prolific driller with 13 wells. Talisman (7), ExxonMobil (6), BG (5) and Kerr McGee (5) , Encana (4) and Newfield (4). Deal activity was down from some 30 in 2003 to 20 in 2004 but the value increased. Most were oil assets. With several government/industry initiatives now implemented companies have been re-examining their portfolios and the outlook appeared positive.	
4	**Future of the EAG (EAG/7/05 and EAG/8/05)**	
	Mike Earp reported on the findings of a sub-group which had met recently to define the role – if any – of the EAG. A potential overlap with UKOOA's FMRT was noted, but it was recognised that the EAG included a wider constituency of members. These should include representatives from DTI,HMT, Inland Revenue, Scottish Executive, DEFRA, UKOOA, OGIA, Contractors, Finance, Trade Unions, Consultants and Academics. It was not expected that all representatives would attend each meeting, but that they should be the points of contact if certain specialised issues were on the agenda. In addition to the normal industry activities, more disparate issues such as Employment,	

	Finance, CO2 Emissions Trading, Produced Water etc need to be understood. The roles of the Group include: 1. Monitoring and recommending PILOT's economic targets and reporting to PILOT on industry performance. 2. Compiling and assessing projections of exploration and development activity, reserves, production, spending, employment, tax A position paper would be prepared to submit to the ILT.	**RH / MT / ME**
5	**Exploration Activity (EAG/9/05)**	
	Philip Beckett summarised the results of the annual DTI survey of exploration activity conducted for the first time in conjunction with UKOOA. The official data supported Wood Mackenzie's findings and provided detailed projections through 2007 by area. 2005 is expected to see the highest number of exploration wells since 1996 and there seems to be pressure building up on rig availability and rig rates.	
6	**AOB**	
	None	
7	**Date of Next Meeting**	
	Friday 10 June 2005 at 10.30 a.m. at DTI, 1 Victoria Street London.	