

**Economic Advisory Group Meeting  
at  
Petro-Canada, 1 London Bridge, London  
at 10.30 am on Friday 13.March 2006**

<b>Present:</b>			
Rebecca Brown	Apache	Norman Smith	Ind. Consultant
Ray Hall (Chair)	BP	Mike Straughen	ILT
Fernando Esteve	BG Group	Jo Wakeman	HMT
Simon Taylor	ChevronTexaco	Simon Gell	Nippon Oil
Alistair Morrison	ConocoPhillips	Roger Burrows	PetroCanada
Mattias Bjornfors	DTI	Xavier Ecomard	Total
Mike Earp	DTI	Sally Fraser	UKOOA
Simon Toole	DTI	Mike Tholen	UKOOA
Paul Shepherd	ExxonMobil	Prof Alex Kemp	Univ. of Aberdeen
Steve Nicholson	Halliburton	Nigel Essex	WHAM Energy
Alan Carter	HMRC	Rhodri Thomas	Wood Mackenzie
Alexandra Hamilton	HMRC		

Roger Burrows welcomed members to Petro-Canada's offices and explained safety arrangements.

<b>Item</b>		<b>ACTION</b>
<b>1</b>	<b>Feedback from ILT/PILOT meetings (EAG/02/06 &amp; EAG/03/06)</b>	
	Simon Toole referred to discussions about exploration activity at recent meetings of the Industry Leadership Team and PILOT. The yet-to-find resource estimates depend on what chance of success is assumed. Industry and Government's challenge is to de-risk prospects across the whole range of risks facing the explorer. Work groups are being set up to focus on Fiscal issues, Information availability and Commercial negotiation delays. A progress report has been requested in June with a view to implementing recommendations within 6 months. In addition, with rig utilisation at close to 100% there is a clear need to attract rigs back to the UK; attempts have been made to assist companies that cannot commit to multiple rig slots by forming a rig club.	<b>ST</b>
<b>2</b>	<b>DTI/UKOOA Activity Survey (EAG/04/06)</b>	
	Sally Fraser presented the results of the latest development and production activity survey, which had been conducted in November 2005, before the Chancellor announced his intention to double the Supplementary Charge to 20% and introduce the development expenditure supplement. The results may therefore be optimistic in the medium to long term, although in the near term the announcement would have little effect because expenditures had been committed.	

	<p>Capital expenditure was expected to be maintained in 2006 close to £4.5 billion spent in 2005. Operating expense was also expected to be rise from £4.0 billion last year to £4.3 billion in 2006. But production should increase from 3.2 million boepd in 2005 to close to 3.5 million boepd in 2007 before declining again.</p> <p>With regard to activity, Professor Kemp said future prospects were declining in size and with high costs per unit there must be a question about declining productivity and profitability. It was noted that the inventory of uncommitted projects (incremental, probables and possibles) has declined materially in terms of the aggregate reserves potential. This is now down to 1.9 billion boe, less than half the potential of several years ago.</p>	
<b>3</b>	<b>UKCS Production and Investment outlook (EAG/05/06)</b>	
	<p>Mike Earp said the DTI had received additional data in January. He expected oil production to rise through 2007 not only from the advent of Buzzard but from other smaller projects (new fields and incremental projects). Gas production was also expected to be maintained in the next two years, although the UK was already a net importer by a small margin. After 2008 sustained self-sufficiency is not expected.</p> <p>Decommissioning costs were expected to reach over £12 billion cumulative.</p> <p>Remaining project costs in the UKCS range from \$12/boe for sanctioned fields to about \$17 per boe for probable and possible developments. In the Southern Basin the corresponding figures range from 6.7 to 9.5 p/therm. MT noted that sanctioned costs often turn out to be higher than projected because companies estimate with less certainty on existing producing assets two or three years into the future.</p>	
<b>4</b>	<b>Proposed Increase in SCT, implications</b>	
	<p>Mike Tholen referred to the tax increases which had been announced in December which were not seen as helping the industry achieve PILOT targets nor encouraging risky and marginal developments. There was considerable concern that the Chancellor did not appear to understand the effect that frequent adverse tax changes can cause to the UK's competitiveness. Companies look at a wide range of economic parameters before deciding to invest in a project. The fact that rigs have been leaving the UKCS for more attractive basins compounds the problem faced by investors trying to maximise recovery from the UKCS. The Supplementary Charge is seen by some investors as a very blunt instrument that, without change, will adversely impact exploration and development of remaining prospects that are typically small, high cost and/or risky. Jo Wakeman invited members to submit their concerns and suggestions to HM Treasury.</p>	<b>All, JW</b>

<b>5</b>	<b>Prospects for West of Shetland</b>	
	Deferred until 23 June	<b>AK</b>
<b>8</b>	<b>AOB</b>	
	None.	
<b>9</b>	<b>Date of next meeting</b>	
	23 June 2006 at Petro-Canada's offices	