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SECRETARY OF STATE FOR ENERGY
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*Allyson
Dunne*

The Rt Hon Lord Carrington PC KCMG MC
Secretary of State for Foreign
and Commonwealth Affairs
Downing Street
London SW1

1. Mr Alexander
2. Prime Minister

You should be aware of
this difficulty over N. Sea gas:
the French companies want
to pipe their gas through
their own pipe-line, we
want it piped through the
gas-gathering pipeline to make
the latter economic. Mr. Howe

30 January 1981
propose to withhold new
licences from them if
they don't agree.

MS

See file

R.

NORTH ALWYN GAS: ELF AND TOTAL: SEVENTH LICENSING ROUND

We are, as you know, having a number of difficulties with the French on energy matters. But there is one problem which is particularly pressing - the transmission of gas from Total/Elf's proposed North Alwyn field development. 2/1

The companies wish to send North Alwyn gas down their existing Frigg line to St Fergus. This would be to their financial advantage (perhaps up to £50m) largely as a result of our tax concessions. However, the national interest would be better served were North Alwyn gas to be put into the gas gathering pipeline (GGP) and it is important for the reasons explained below that there is an early commitment of North Alwyn gas to this pipeline.

The latest overall estimates of gas availability for the GGP are at least as high as those made a year ago. However, with some field slippage and down-grading of reserves, and the fact that we cannot at present count on Norwegian Statfjord gas, the expected throughput in the first few years of pipeline operation on which plans for the GGP were based, will be achieved only if the gas from North Alwyn (about 210 million cubic feet per day) is secured. This is of crucial importance since finance for the interim pipeline company will have to be raised in the next two months if the GGP Organising Group is to keep to its schedule. Those concerned with providing the finance will take a hard look at the gas reserves they can be sure will flow through the line. Without North Alwyn gas the initial prospects of the northern leg of the main trunk line look thin. This would become known and, apart from worsening the prospects of the Northern leg, would diminish our chances of getting the Norwegian Statfjord gas on the terms that have been offered. An early quotable commitment of North Alwyn gas to the GGP is, therefore, vital.

In the last resort I have power to refuse permission for a pipeline link from North Alwyn to Frigg. But Elf and Total know that I cannot exercise this, or formally pre-judge the situation, before an application for construction of that line is submitted to me. Elf and Total do not need to hurry in submitting an application, as the overall development programme for the field has not yet been submitted to us and they would not expect to obtain approval for the programme until much later this year.

I believe, therefore, that we should put pressure on the French to give us the early assurance we require. The most effective lever we have for this is the allocation of the remaining Seventh Round awards for offshore licensing.

The French have reacted sharply to the failure of the French companies to gain awards of blocks under the first part of the Seventh Round. Representations have been made to our Embassy in Paris, by the French Ambassador in London, and by the Chairman of Elf Aquitaine. They have also asserted that decisions have already been taken to exclude the French companies from some of the remaining awards. We have not yet made decisions on the remaining awards in the Round, and the French have been advised that they should not pre-judge the results of the Round until it has been completed.

As part of our assessment of licence applications we consider (and this is stated in the published criteria) the extent to which the applicant has made, or is planning to make a contribution to the economy of the UK, including the growth of industry and employment. I believe the French would recognise that the important national interest considerations underlying the GGP must have a relationship with that criterion. I propose therefore that we should reinforce this by very early approaches to the French in London, both the companies and the French Embassy, and in Paris through our Embassy to M de Wissocq of the Energy Directorate, speaking on the lines of the attached aide memoire. Having reminded the French of the important national objective of the GGP and of our policy that North Alwyn gas should come into it and not into any other line, we should make it clear that we wish to have an early and firm undertaking that this will happen. We would also leave the French in no doubt that our licensing policy requires us to take account of contributions to the UK economy and the furtherance of national economic objectives and that in taking decisions on Seventh Round and future licences, Ministers will necessarily look at the French performance in this regard. If this action does not produce quickly the desired response - and I do not think it will - I would propose to announce the majority of the Seventh Round awards but to increase the pressure on the French by holding back certain blocks, primarily all of those - 11 in number - for which the French companies have been shortlisted (they are



aware that they have been shortlisted). Our officials could discuss the precise tactics on this.

If, as is likely, we need to hold back certain blocks, we can expect Parliamentary questions asking why we have done this. We will be able to put forward a plausible explanation without giving the real reasons. The French, however, will know full well what is the reason. We must therefore expect them to mount considerable diplomatic pressure and the atmosphere could become pretty acrimonious. We must also be prepared to hold back the licences, possibly for a number of months - perhaps until after the French election. However, the stakes we are playing for on the gas gathering line are so high that I believe we must do everything possible to achieve the early commitment of North Alwyn gas to that line. I very much hope, therefore, that you will be able to support my proposed action. If you agree, I suggest our officials should straightaway work out the details of our approach to the French and of handling of subsequent representations from them and the ensuing Parliamentary and Press questions.

I am copying this letter to the Prime Minister, the Chancellor and Sir Robert Armstrong.

D A R HOWELL

Yours
em

Dard



NORTH ALWYN GAS

Objective

To ensure early commitment of North Alwyn gas to the proposed gas gathering pipeline (GGP) rather than the Frigg system which is preferred by Total/Elf.

Line to Take

1. As announced by the Secretary of State for Energy last June, the aim is to develop an integrated gas gathering system as recommended in the BGC/Mobil report.
2. The integrated system takes into account:
 - full recovery of natural gas liquids
 - avoiding offshore pipeline duplication
 - maximising the net national benefit
 - simplifying platform processing.
3. Putting North Alwyn gas into the Frigg system would run counter to these objectives and be against the UK's economic interest. Ministers therefore regard this as contrary to the national interest. In the allocation of Seventh Round licences, and for subsequent Rounds, Ministers will necessarily take account of companies' records and plans in such matters.
4. It is therefore important for Total/Elf to bear these factors in mind in reaching an early decision on seeking pipeline consent. An early decision will anyhow resolve problems about platform gas processing facilities in respect of their field development proposals which are at present under discussion.

Defensive Points

- Q1. Why is the British Government pursuing this matter when the BGC/Mobil report made no mention of collecting North Alwyn gas into the new pipeline ?
- A1. At the time it was envisaged that this gas would not be available till the 1990's. The BGC/Mobil report therefore took account of North Alwyn as one of the fields contributing to the aggregate supplies described in the report as 'future UK gas'. Total have subsequently made known that they plan to produce from the mid-1980's.



- Q2. Why will the British Government not allow us to collect our own gas in our own pipeline system [the Frigg system], which was designed to have spare capacity for just such a purpose ?
- A2. The Government has to look at the overall national interest in deciding on the disposal of the nation's hydrocarbon resources.
- Q3. Why should we be forced to pay tariffs (the level of which has yet to be decided) for use of the gas gathering line, to put profits into someone else's pockets ?
- A3. The gas gathering pipeline organisation will operate as a utility transmission company, whose tariffs will be calculated on a cost-of-service basis.
- Q4. Why should we delay production until the gas gathering line is available ? The Frigg system is there now.
- A4. The pipeline is expected to be available in 1984/5, in good time for collection of North Alwyn gas, and work on it is proceeding to schedule.



Background

1. To support our policy for the collection and disposal of UKCS gas, and to enhance the viability of the GGP thereby facilitating its financing, it is most important that gas from the proposed North Alwyn field should be put through the GGP.
2. Elf and Total, the North Alwyn licensees, have a strong preference on commercial grounds for sending the gas down their existing pipeline. The financial advantage is estimated at up to £50m. at a 10% discount rate, largely at the expense of the British taxpayer.
3. The Secretary of State for Energy has power to refuse permission for a pipeline connecting North Alwyn and Frigg but he cannot use this formally in advance of an application for such permission being made to him. As the field development programme is unlikely to be approved before Autumn 1981 the companies have no need to rush their application for the connecting pipeline to Frigg.
4. The initial financing for the GGP must be set in place within the next two months and a firm commitment of North Alwyn gas to the GGP could be essential to success in raising the funds required.
5. The GGP is seen as maximising the net national benefit arising from UKCS gas resources and as being generally supportive of national economic objectives.
6. The French companies have not done badly in the six previous Rounds of licensing. Apart from Germany (and Holland which is a peculiar case) they have a greater stake on the UKCS than any other European company.
7. In the Seventh Round the French applications for three blocks in the 'company nomination area' were unsuccessful. Those for blocks nominated by the Department of Energy are still under consideration. M. Sauvagnarques warned Sir Donald Maitland on 14th January that 'if French companies do not get a fair share of the awards this could lead his Government to question the weight they should attach to British expressions of readiness for wide co-operation with France'.



8. Elf and Total are currently in the running for up to eleven blocks. The assessment of applications is continuing and within the assessment process importance is attached to a range of published criteria including:

'the extent of the contribution which the applicant has made or is planning to make to the economy of the UK.....and the growth of industry and employment'.

9. The importance of the GGP is such that the persistent refusal of Elf and Total to fall in with our wishes over North Alwyn gas could reasonably result in their being marked down heavily on the UK contribution criterion, to the extent that they would have minimum success in the Seventh, and perhaps also in subsequent Rounds.

10. ~ If the situation was reached where only a few awards were made to the companies, they would probably allege that they had been discriminated against. It is, therefore, important that the link between North Alwyn gas and the licensing regime is articulated carefully.

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Copy to Prime Minister
Chancellor of the Exchequer
Sir Robert Armstrong

Handwritten signature

NA

PS
PS/LPS
PS/Mr Hurd
PS/Mr Ridley
Lord Bridges
Mr Braithwaite
Mr Hannay
Mr Ferguson
EC(D)
WED
Mr Watts (Legal Adv)

FCS/81/13

SECRETARY OF STATE FOR ENERGY

North Alwyn Gas: Elf and Total: Seventh Licensing Round

1. Thank you for your letter of 30 January about securing an early French assurance about directing North Alwyn gas into the gas gathering pipeline. I accept your judgement that the Seventh Round allocations constitute our most effective lever. I therefore agree in principle with the objective and strategy of your proposal.

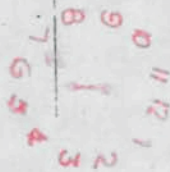
2. However I believe that the tactical handling and planning will be crucial to the success of the operation. It is legitimate and defensible for us to use our position as a substantial oil producer to move others to fall in with our energy policy objectives. Nevertheless the French are likely to react strongly. They may threaten consequences more concrete than those hinted by the French Ambassador to Sir D Maitland: perhaps by seeking linkages with Community matters. They may seek to take the matter up in our courts or with the European Commission, as being contrary to the Treaty of Rome, in particular Article 7. The French companies may argue that we were imposing commercial penalties on them beyond those we have demanded of companies of other nationalities. British firms involved in the French applications might also complain that they were being penalised. The Parliamentary line will have to be drafted to stand up to criticism if (as we may expect) the French make public what we have been doing.

3. It seems to me that one way of reducing the risks might be to offer a concession to the French companies on the gas gathering pipeline or elsewhere which could partially compensate for the disadvantages they will suffer in not using the Frigg pipeline. But this is of course a matter for your Department not mine.



4. I conclude that our officials need to elaborate in detail a credible line to take with the French Government, the French companies, British companies, Parliament and the press. I therefore agree that our officials should now work out the details, in consultation with Sir R Hibbert in Paris. When this has been done I think that it would be right for you and me to look at the matter again before giving the final green light.

(CARRINGTON)



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5 February 1981

Foreign and Commonwealth Office

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