



10 DOWNING STREET

Prime Minister ⁽²⁾

This is a useful piece of Contingency planning. A decision to sign for Sleipner gas will have two consequences

(i) signing at say 26p per therm against 22-23p paid to be North Sea will weaken

|| case for holding down ||
domestic gas prices ||

(ii) it would make no sense to pay more for imported gas than for North Sea gas. UK producers should be allowed to export. This will maximize UK development.

No action at this stage

AT

26/10

DEPARTMENT OF STATE
STABLE HOUSE
LONDON SW1
01 277 6402

CONFIDENTIAL

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
H M Treasury
Parliament Street
London SW1

25 October 1989

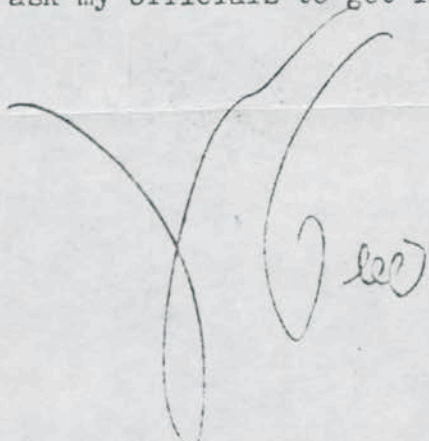
26 p.

Re reply

BGC'S NEGOTIATIONS FOR SLEIPNER GAS

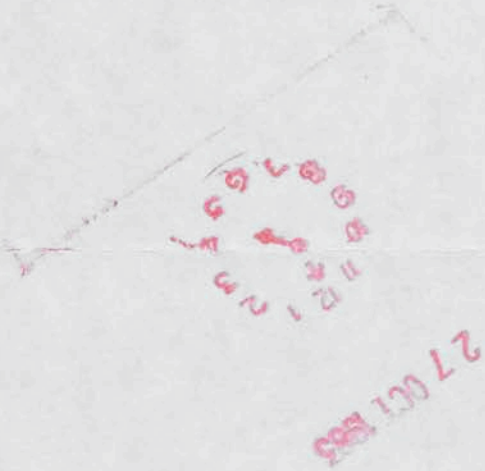
I have delayed my reply to your letter of 1 August until I was able to report progress. I told BGC at the beginning of August to proceed with the Sleipner negotiations on the ad referendum basis we had agreed, and I understand that the Norwegians accepted the position. There have been several rounds of negotiation since then and at the last, on 12 October, BGC tabled an offer which a joint working group is now examining in detail. When negotiations resume on 9 November, it is expected that they will progress rapidly towards a conclusion.

With the prospect, assuming an ad referendum agreement has been reached, that we will then have to make up our minds fairly promptly whether or not the deal should go ahead; I think it would be as well for our officials to discuss in some detail, so that they can advise us in due course, the likely balance between supply and demand for Continental Shelf gas which you rightly identify in your letter as a key issue. I will ask my officials to get in touch with yours accordingly.



PETER WALKER

Not. Ind : Car prices K8.



cc NYO



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

BF

1 August 1983

The Rt Hon Peter Walker MBE MP
Secretary of State for Energy

NBPM at Ministry
Awaits response
from P Walker.

John Peter

WR
2/8

BGC'S NEGOTIATIONS FOR SLEIPNER GAS

Thank you for your letter of 26 July.

The decision whether to purchase Sleipner is clearly one of major importance; and I agree with you that it is essential that BGC be told not to commit themselves until all the details, most importantly price, have been established, and discussed with Government. BGC should make it clear to the Norwegians that their negotiations this week are without commitment and ad referendum to Government. And I hope you can also ensure that we are allowed adequate time to consider the possible package as finally identified.

The following three issues seem particularly relevant.

First, it would be most helpful if, before final decisions are required, we could have available your Department's assessment of the likely balance between supply and demand for Continental Shelf gas if Sleipner is not purchased by BGC. That is a key piece of evidence, which would go rather further than major companies' refusal to guarantee UKCS supplies, significant though that may be.

Secondly, it is crucial that BGC should accept that if they buy Sleipner they will have to sell the gas at a commercial price. It would be wrong for them to buy it, at a substantial resource cost to the UK, if they can only sell it by cross-subsidising its purchase from the profits on lower-cost contracts. To sell Sleipner gas at less than the true cost of acquiring it would mean that the wrong signals were given to consumers. The consequence would be that we would find ourselves importing more gas than could be justified at a resource cost to the nation. We would have to be clear that this would not happen.

NAT IND.
GMS P+8

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Finally, the issue of exports is no less crucial, and before we take a decision on Sleipner we shall have to consider the study on the possibility of gas exports, which will I hope be ready very soon. Our Sleipner decision may well hang on the answers to the - legal and political as well as economic - questions it raises: it would be wholly wrong if a Sleipner purchase were in practice to inhibit UKCS development.

Copies of this letter go to the Prime Minister, to Geoffrey Howe and to Sir Robert Armstrong.

John
Nigel

NIGEL LAWSON

-1 AUG 1983

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SECRETARY OF STATE FOR ENERGY
 THAMES HOUSE SOUTH
 MILLBANK LONDON SW1P 4QJ
 01 211 6402

The Rt Hon Nigel Lawson MP
 Chancellor of the Exchequer
 Treasury Chambers
 Parliament Street
 LONDON SW1

26 July 1983

Dear Chancellor

The volume of gas under contract to the British Gas Corporation will decline rapidly over the next decade. They consequently need to place contracts for large volumes of new gas to meet requirements in the 1990's.

As you will know, since last Autumn, in competition with continental utilities, BGC have been negotiating for the purchase of gas from the Sleipner Field on the Norwegian Continental Shelf.

The gas would come on stream in about 1991 and from 1996 would be producing at 400 bcf per year for 10 to 15 years.

That level of production would meet one quarter of our expected requirements and would, in fact, be a replacement for Norwegian Frigg gas which runs out by the end of this decade.

I have carefully studied the implications of this negotiation and I am convinced that both for the mid-term and long-term we need to retain a Norwegian connection. There will be Norwegian gas available after our own gas supplies run out and I am anxious that this should not be fully contracted to the continent.

A number of oil companies have suggested the possibility that new gas supplies from the UKCS would be able to meet the major part of the Gas Corporation's requirements in the 1990's. I have, however, confronted a number of the major companies as to the possibility of their being able to, in any way, guarantee such supplies and they are unable to give any such guarantees of delivery during that period. I gained the impression that the majority of them accept the need to buy Sleipner, although naturally there are some that would benefit from an improved gas price should supplies prove to be inadequate in the 1990's due to Norwegian gas being unavailable.

Of course, if UKCS gas supplies in the 1990's proved to be beyond our present expectations, then we should consider allowing exports to take place. I am pressing ahead with a study on the possibility of gas exports. But in the period immediately ahead UKCS producers will have every incentive to search for and develop any gas found in order to meet the large gap between expected supply and demand even if BGC purchase Sleipner.

Prime Minister (2)

BGC to purchase

some Norwegian gas


MUS 27/7

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The main factor in the Gas Corporation's negotiations will, of course, be the price at which Sleipner gas can be bought and I intend to authorise them by the end of this week to proceed with the negotiations scheduled to begin on 2 August. As you know I had previously postponed these negotiations in order that I could study the position in depth.

Providing the price is right, I believe we should proceed with this purchase. But, naturally, I shall make it clear to BGC that no final settlement can be reached until we have the opportunity of measuring the cost. We will be in a position to do this more accurately after the negotiations next week.

I am copying this letter to the Prime Minister, Geoffrey Howe and Robert Armstrong.

Yours sincerely


pp

PETER WALKER

(Approved by the Secretary of State
and signed in his absence)

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27 JUN 1964

