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cc D/Energy

10 DOWNING STREET

THE PRIME MINISTER

22 March 1984

Dear Sir Alistair,

Thank you for your letter of 7 March amplifying the points you made in your earlier paper. I am grateful to you and Allen Sykes for the interest you have shown and I am sure Peter Walker will bear your arguments in mind when considering the Government's policy on gas.

Yours sincerely

Margaret Thatcher

Sir Alistair Frame

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Sir Alistair Frame  
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20 March 1984

*A. G. ... with GR*

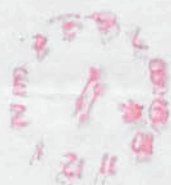
Thank you for your letter of 7 March together with the enclosure. I read this with interest. It is, of course, a highly complicated area with a range of considerations but it was nice to have your comments. I will presumably see you next Monday when I lunch with RTZ. Perhaps we could have a word about it then.

*[Handwritten signature]*  
PETER WALKER

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7th March, 1984

*Dear Prime Minister,*

North Sea Gas

Thank you for your letter of the 22nd February replying to our earlier letter and paper. I must apologise for the delay in answering, but both Allen Sykes and I have been travelling abroad. We appreciated receiving your well reasoned reply to the main points in our paper and will, as you have suggested, copy our paper and this correspondence to Peter Walker.

In reply to your letter, we would make only three significant points.

1. Any inter-connection between Britain and the European gas grids must be for the mutual benefit of all the countries concerned and improve the security of the Western Alliance. Accordingly, it is worth pursuing vigorously, despite Norwegian commercial reluctance. Western security is too important to be sacrificed to such a narrow interest. In any event, in the last resort, Britain can link itself to Europe without Norwegian involvement, although such involvement is highly desirable. We believe, however, that Norwegian gas policy is capable of being changed for the better by the combination of a much more liberal economic policy by Britain and an imaginative diplomatic effort at the highest level. These measures could overcome the restrictions, shortsightedness and lack of co-operation of the last decade, although we fully realise that it will take time and careful persuasion. We believe the detailed arguments we developed in our paper should assist in this process. The likely military, political and economic gains are so important that they merit making a major attempt.
2. Britain currently may not need any further gas import deals after Sleipner, if the British Gas Corporation monopoly is abandoned and exports allowed. The going British price for North Sea gas is some 20% below the price that could be earned in Continental Europe and the very best way to ensure the maximum supply of British gas for the British long terms needs is to eliminate completely monopoly buying by the BGC.

7th March, 1984

The only realistic way to introduce significant competition into British gas supplies is to allow them to find their true market level, which means allowing exports. The increase in gas exploration and gas finds of the last two years is almost entirely due to the very much higher prices the BGC have been paying for British gas. It would be wise to take this process to its ultimate conclusion, which involves eliminating any difference between British and European prices. This means higher gas prices, but higher economic activity to go with it, and incidentally, no likelihood of a shortage of British gas. The elimination of state monopoly pricing is, after all, the economic policy generally favoured by the Government in nearly all other cases, including oil. It can be expected to bring the same general benefits when applied to gas.

3. While it is true that there is a landing requirement on oil as well as gas, in practice this requirement has often been waived. More importantly, oil is cheaper and much more flexible to transport, whereas gas can only be transported by expensive pipeline. The requirement to land gas in Britain before it can be exported is, therefore, tantamount to denying export in practice. The case for this requirement deserves re-examination.

We hope these points are of some help to you and your advisers when facing the important and difficult decisions over North Sea gas.

*Yours sincerely  
Alistair Frame*

The Right Hon. Margaret Thatcher, M.P.,  
10 Downing Street,  
London, S.W.1.

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