

CONFIDENTIAL



Prime Minister

You may want to discuss handling of this decision at bilateral with Chancellor

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

AT
15/5

15 May 1984

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

SLEIPNER

I was interested to receive your letter of 2/ May and its detailed enclosures.

However, a careful reading of all the documents leaves me far from convinced it is necessary for BGC to enter into this massive commitment at this stage. As your own analysis makes clear, there is inevitably a good deal of uncertainty surrounding the underlying projection of supply and demand. For this reason, if we are to proceed as you propose, I think it is essential that we should simultaneously announce the introduction of a regime of unrestricted gas exports.

Until recently, and in sharp contrast to the North Sea oil scene, the level of gas exploration and development activity on the UKCS has been very disappointing. It has increased dramatically in the past couple of years, partly as a result of the 1982 Oil and Gas (Enterprise) Act and partly as BGC's increasing awareness of their need to sign up new supplies has led them to offer prices nearer to international levels, (although I note that the price BGC are currently offering on the UKCS remains well below the level they are prepared to offer the Norwegians for Sleipner). My concern is that the purchase of Sleipner gas could easily stifle this resurgence, dealing a severe blow to companies seeking gas on the UKCS, in addition to its implications for the balance of payments.

These problems are, of course, well recognised in your paper, where you acknowledge that an export regime would provide a solution. Freedom to export would enable companies wishing to explore and develop UKCS gas to flourish, could remove



the balance of payments implications of Sleipner and could produce valuable tax revenue at a time when receipts from oil were falling.

For these reasons, I consider it essential to permit unrestricted exports. We would need to announce the new regime publicly at the same time as we told BGC of our decision on Sleipner in order to avoid damaging the confidence of companies operating on the UKCS. If you can agree to this, I should be content to proceed on the basis set out in your paper.

Finally, you mentioned in your paper the price at which BGC sells gas to its customers. We will need to return separately to this in due course.

I am copying this letter to the Prime Minister, Geoffrey Howe, George Younger, Norman Tebbit and to Sir Robert Armstrong.

NIGEL LAWSON

NAT CMD: Case 179

15 MAY 1984





C a tw
DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215) 5422
GTN 215)
(Switchboard) 215 7877

JF6514

Secretary of State for Trade and Industry

15 May 1984

CONFIDENTIAL

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3AG

R Nigel,

SLEIPNER

Peter Walker sent me a copy of his letter 2 May. I am reluctant to support his proposals as they stand, because they would tend to slow down development of the UK Continental Shelf.

2 At present UKCS gas can only be supplied to the UK market, and Sleipner would enable BGC to continue holding down the price they pay to UKCS developers below international levels. The market, not BGC alone, should determine the rate at which the UKCS is developed and it would be particularly undesirable to postpone worthwhile gas developments during a period when the contribution of North Sea oil to the economy may begin to fall.

3 One option would therefore be to turn down the Sleipner deal and hope that our needs can be met by a combination of high UKCS production, encouraged by more realistic prices from BGC, and a low level of imports from other sources. That would, however, be a high risk strategy. There is a considerable measure of uncertainty about how much UKCS or imported gas will be available and in a few years' time we could face an uncomfortable choice between increasing Europe's dependence upon Soviet supplies or pushing up prices further to secure a cut in consumption. Such a cut would probably be borne largely by industry.

/4 There ...



4 There is a second and less risky option, which is to allow the Sleipner deal to go ahead (with the improvements recommended in paragraph 7 of Peter's memorandum) on condition that a more liberal regime is introduced for gas exports. UKCS developers would be confident of finding a market, either at home or abroad, and BGC would enjoy the security of the Sleipner supplies. The supply and demand projections indicate that with Sleipner we would probably have to allow exports anyway, to cope with a surplus of gas, and announcing this now would have a stimulating effect on UKCS development.

5 I am not advocating a complete dismantling of the controls on exports. The inflexibilities and imperfections in the European gas market suggest that the Government should retain some reserve power to prevent an export contract in circumstances where the contract was likely to jeopardise UK gas supplies in the short term.

6 I am copying this letter to the Prime Minister, Geoffrey Howe, Peter Walker, George Younger and to Sir Robert Armstrong.

A handwritten signature in black ink, appearing to read 'Norman Tebbit', with a horizontal line underneath.

NORMAN TEBBIT

NAT LMS Gao 129

15 MAY 1984

9 8 7 6 5 4 3 2 1