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PRIME MINISTER

SLEIPNER

I wrote to Nigel Lawson on 2 May enclosing a paper about the proposed purchase of Sleipner gas. There has been subsequent correspondence from colleagues, including Nigel's letter of 15 May.

Colleagues agreed that we should proceed with the Sleipner purchase provided the Norwegians were prepared to agree to reduce the volume which they would require us to take under the contract. The Chancellor however sought a further condition, which was the immediate announcement of unconditional permission for gas exports from the UK Continental Shelf.  
- when? Letter to Chancellor and SS/IT

Since then, my officials and those of the Treasury have discussed and corresponded about a form of assurance on exports which might be given to developers on the Continental Shelf, and I have myself now discussed the matter with the Chancellor. I am as anxious as he is to maintain the momentum of development on the UKCS and had hoped that it would be possible to reach agreement. This has not proved possible, and in view of the urgency of the matter I would be grateful if you could arrange for it to be discussed at a very early date. I understand that you consider ES to be the appropriate forum.

*Calculations?*  
In the announcement which will have to be made about Sleipner I believe we should say: first, that the British Gas Corporation will require very large volumes of new gas (the equivalent of two Sleipners) from the UK Continental Shelf, over and above supplies already contracted; and secondly, that if it becomes clear that exploration or development is being inhibited, either in a particular case or more generally, the Government will waive the landing requirement for gas either on the particular development or on new UKCS developments generally, provided security of supply to the 15 million British industrial and domestic consumers is not undermined. I would tell British Gas that if they acted, either through reluctance to contract or through price, so as to inhibit UK exploration and development, or indeed if general evidence of a failure of development through insufficient UK demand began to emerge, then



I would allow exports. I would make it clear to the companies that the Government meant business about avoiding inhibition of development. I believe that these steps would in fact ensure that BGC would be careful not to damage development through its policies. That is perhaps the most important step we can take.

Over a period, this would raise BGC prices to producers, but not in one fell swoop. It would in effect create a right of appeal against BGC and leave to the Government the discretion needed to look after security of supply as well as development.

However, the Chancellor wishes to announce immediate unrestricted exports, perhaps with a rider about the level of our gas reserves which would however have no impact on the foreseeable future. I fear that this sharp change of policy would produce an interruption in development, in which the oil companies held off contracting new supplies to BGC while they reassessed the position and looked at export opportunities. We would have moved in one step from a virtual British Gas monopsony to a situation where the oil companies would have a potential monopoly, which would tempt them to form a cartel and to hold off from contracting with British Gas. There would be a sharper and more immediate effect on price, even for those Southern North Sea developments which are already very profitable. This would put at risk the security of supply for British industry, precipitate a gratuitous price increase for consumers, industrial and domestic; and undermine the rationale of the Sleipner purchase, which is after all security of supply to UK consumers in the 1990s, at a time when we still needed two Sleipners from the UK Continental Shelf.

The gas market is totally different from the oil market. Purchases are very large and lumpy, and are usually for delivery at dates far in the future. The market is greatly limited by geography and by the fact that the pipeline is the only economic transport system. Security of supply means looking a decade or more ahead, and forecasting either supply or demand is inevitably speculative. In this situation the flexible approach to exports which I suggest is, I am sure, right.



I am much concerned that our negotiating position with the Norwegians on reducing the quantities in the Sleipner contract is being weakened by delay. They have a viable alternative in oil developments to which they may turn to secure continuity of services, if delay on Sleipner continues. The Foreign Office recently stressed again the desirability of early contact with them on Sleipner given other matters of difference affecting our relations with them. It is likely already to be necessary for them to recall the Storting to discuss Sleipner. There is of course a wider strategic advantage in securing the progressive development of Norwegian gas which, with an eye to the Soviets, the Americans have pressed upon us from time to time. I very much hope that I can be enabled to open negotiations with them on the reductions as speedily as possible.

I am copying this minute to Members of ES, George Younger and to Sir Robert Armstrong.

*John Neilson*

P.P. SECRETARY OF STATE FOR ENERGY  
8 June 1984

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

NAT 1 MD: Gen



I am pleased to inform you that the National Archives and Records Administration has received your request for the release of the records described in your letter of June 10, 1980. The records are being reviewed and the release process is being expedited. We will contact you again when the records are ready for release. If you have any questions, please contact the National Archives and Records Administration at the address listed below.

08 JUN 1980



SEE PAGE 17 STATE FILE

Enclosed for the Secretary of State are the records described in your letter of June 10, 1980.

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10 DOWNING STREET

Prime Minister ②

This will be discussed on  
Thursday. The Chancellor  
will be circulating his  
own paper early next week.  
Policy Unit will also  
comment.

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AT  
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