



PM/85/10

PRIME MINISTER

Sleipner

1. I agree with the Secretary of State for Energy that, in the light of the changed estimates of United Kingdom Continental Shelf gas reserves given in his minute to you of 31 January and the rise in the dollar, we should not endorse the contract negotiated between the British Gas Corporation (BGC) and Statoil.
  
2. There must, though, be serious concern that the announcement of the cancellation of this contract will damage our relations with the Norwegian Government and possibly with the US Government which, as you know, has supported the early development of the large Norwegian gas fields for strategic reasons. We have to handle this carefully.
  
3. I suggest therefore that the priority should be to tell the Norwegians that while we cannot endorse the existing BGC/Statoil Agreement, we would wish to pursue a number of alternatives, foremost among which would be an agreement with Statoil for a smaller volume of gas. This would permit the development of part of the Sleipner field, whilst the possibility of a larger volume and of a land-bridge is actively explored. For a number of reasons, including the views of the US, I am strongly against an approach from our side being made to the Soviet Union as a potential alternative supplier. The position would be different if the Soviets approached us, but it would still be right to be very cautious.

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4. There is no doubt that we must avoid a repetition of our experience with Sleipner, which does harm to our relations with a long-standing friend and NATO ally. I therefore hope that BGC will be instructed to keep the Department of Energy informed, of their negotiations so that there is no question of our having to intervene again after a very large commercial agreement has been all but signed.

5. Perhaps the most important lesson to be learned is that friendly governments have had to become involved in this subject. Because they are not commercial organisations, it has inevitably taken a long time to reach a conclusion. I cannot help wondering whether there are not ways in which we could do more to liberalise and de-monopolise the gas industry so as to reduce the risks of such a situation recurring.

6. I am copying this minute to the Secretary of State for Energy, the Chancellor of the Exchequer, the Secretary of State for Trade and Industry and Sir Robert Armstrong.

(GEOFFREY HOWE)

Foreign and Commonwealth Office  
4 February 1985