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CEO

PRIME MINISTER'S

PERSONAL MESSAGE



SERIAL No. T34/85 10 DOWNING STREET

THE PRIME MINISTER

19 February 1985

Dear Prime Minister,

I know that our decision not to endorse the agreement between Statoil and the British Gas Corporation for the purchase of Sleipner gas was a disappointment to you. Alick Buchanan-Smith has explained to Mr. Kristiansen the reasons for it. I have been following the discussions closely, as I know you have, too, and would like to set them out to you personally.

The main reason for our decision is the changed estimates of reserves on the UK Continental Shelf. The draft contract was negotiated against the background of an expected shortfall in supplies of gas in the 1990s, but even when the British Gas Corporation first referred the draft contract to the Government it seemed very likely that the rate of delivery would be too great for the size of the gap we foresaw. This was one of the main reasons for our approach to your Government in June, and we were grateful for your agreement that we should ask the British Gas Corporation and Statoil to renegotiate the delivery rate. Since the summer, the prospects for gas supplies for the UK Shelf have markedly improved, and exploration and appraisal are at record levels. Estimates of proven and probable reserves have gone up from 40.6 trillion cubic feet (tcf) to 46.8 tcf. With the improved availability of gas from these increased reserves, the purchase of Sleipner gas would have resulted in an over-supply in the 1990s, if development of our own resources was not to be put back unreasonably.

Over the same period the dollar has risen against most other currencies and this further enhances the attraction of

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developing our own resources.

I know that you hoped for an earlier decision from us and am very grateful for the patience which you and your colleagues have shown. I am also very conscious of the domestic factors which have made the delay even more difficult for you. I hope you will accept that for us the decision was a difficult one, and that the time we took to reach it reflected not only the size of the proposed contract, which would have entailed a very large expenditure over a number of years, but the need to come to a considered assessment of our own resources at a time when the estimates were changing rapidly and significantly.

The British Gas Corporation may still need to import gas in the future. If they do, I am sure that Norway will be among the sources they consider. In any event, I am confident that, as in the past, there will be many other examples of co-operation between Norway and the United Kingdom, and that relations between us will continue to be as close as they have always been.

Yours sincerely
Margaret Thatcher

His Excellency Mr. Kare Willoch