



10 DOWNING STREET

*From the Private Secretary*

3 October 1985

*Dear Geoff,*

NORTH SEA GAS PRICES AND JOBS

B/FX  
The Prime Minister has seen your letter to Nigel Wicks of 25 September. She remains concerned that delays in concluding discussions between BGC and the companies could damage the offshore industry. She wishes to write to Sir Denis Rooke along the lines indicated in Nigel Wicks' letter to you of 12 September, and I should be grateful for a suitable draft.

I am sending copies of this letter to Rachel Lomax (HM Treasury), John Graham (Scottish Office) and John Mogg (Department of Trade and Industry).

*Yours sincerely,  
David.*

David Norgrove

Geoff Dart, Esq.,  
Department of Energy.

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SECRETARY OF STATE FOR ENERGY

THAMES HOUSE SOUTH  
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*copy*

*CF*  
*to b/f with any*  
*comments. If there are*  
*none please b/f anyway*  
*on 30/9.*

*DHS*  
*26/9.*

25 September 1985

Nigel Wicks Esq  
Principal Private Secretary  
10 Downing Street  
LONDON SW1

*Dear Nigel,*

NORTH SEA GAS PRICES AND JOBS

*(behind this letter)*

Thank you for your letter of 12 September.

There are several Southern Basin gas fields, or groups of fields, which the companies concerned would like to develop over the next couple of years. A number of technical problems need to be solved, including the most appropriate pattern of pipeline development. The main obstacle to early development is, however, as your letter suggests, the fact that BGC has not yet agreed contract terms with the producing companies.

The underlying problem is not one of price. The developments appear to be sufficiently attractive at the prices which BGC is said to be prepared to pay. This point came out clearly from the work of an interdepartmental working group on the North Sea fiscal system. Rather, the problem is that BGC has a surplus of contracted gas in the short term with only a limited need to contract new gas supplies for delivery before 1990.

Nonetheless, BGC is in negotiation with a number of companies at the present time, and is already committed to buy Audrey gas from Phillips in 1988. My Secretary of State has told Sir Denis Rooke that he hopes the negotiations with Conoco on V fields gas can quickly be brought to a successful conclusion, and, more generally, has impressed on the Corporation the undesirability of a loss of momentum offshore. When agreement with Conoco or any of the other companies is reached, field development is likely to go ahead quickly, and this should give important encouragement to the offshore industry.

Beyond the short term BGC's surplus turns rapidly to deficit and prospects for UKCS producers and for the offshore industry generally are excellent. The Government's decision not to endorse the Sleipner contract means that there will be more opportunities in the 1990's

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for UKCS producers to sell to BGC than there is yet gas established and available to sell. But it is obviously important that BGC's short-term surplus should not, by delaying new contracts, damage jobs in the offshore industries or threaten to put firms out of business. My Secretary of State will continue to press these points, and feels that, since we are already in close dialogue with BGC, there is no need for the Prime Minister to write to Sir Denis at this stage.

You also asked about gas exports. There is in fact little scope for speeding UKCS development in the short term by selling gas to the Continental utilities all of whom have contracts covering their immediate needs. The Secretary of State is reviewing the position generally on gas exports and imports, as was agreed earlier at E(A), and will be bringing forward proposals in the privatisation context.

I am copying this letter to Rachel Lomax (Treasury), John Graham (Scottish Office) and John Mogg (Department of Trade and Industry).

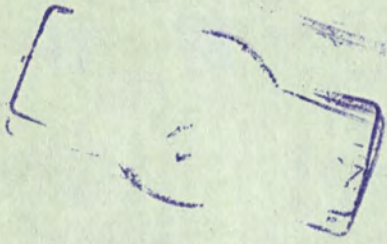
*Yours ever,*

*Geoff*

G S DART  
Private Secretary

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