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MR NORGROVE

2 October 1985

NORTH SEA GAS PRICES AND JOBS

You asked for comments on the recent exchange of correspondence with Peter Walker's office on BGC's gas procurement policy, the implications for UK gas development activity, and the related impact on jobs.

There were certainly grounds for challenging BGC when they contemplated buying a large supply of expensive Norwegian gas (Sleipner), seemingly to strengthen an already dominant position as monopoly purchaser by creating a buyers' market for UK gas supplies.

As things have turned out, there is a buyers' market today, but not because the Norwegians got in ahead of UK producers. It stems from the stimulus to gas exploration of the higher gas prices offered by BGC in recent years and tax changes in the 1983 Budget. A measure of this is the 15% increase of UK gas reserves in the most recent update.

There is now a queue of UK producers anxious to conclude supply contracts with BGC. Not surprisingly, those further back in the queue, with more expensive development plans, are lobbying for BGC to be more expansive in their procurement of new gas supplies. BGC should not commit to purchase more gas than they realistically see the need for; such gas purchasers carry the obligation to take or pay.

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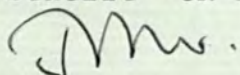
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In the context of public expenditure control and BGC privatisation, the Government rightly insist that BGC must act commercially, not least in its gas procurement. It would be wholly inconsistent with this line if we now urge BGC to be more expansive, purchasing additional gas so as to stimulate gas development and create more jobs.

On the subject of North Sea development activity, I would point out that the gas-related projects - mainly in the shallow southern North Sea - require much less equipment and generate fewer jobs than northern North Sea oil projects. Thus, at present, the biggest threat to jobs in the UK contracting industry is factors influencing the outlook for oil prices, in sterling, eg OPEC's poker game in the face of a new Saudi Arabian oil export policy, barter deals involving oil, and the rate of sterling against the dollar.

Conclusion

BGC is acting commercially in selectively and toughly negotiating with UK gas producers for new supplies. The Government should not intervene. The issue will soon come back in a broader context when liberalisation of gas imports and exports is debated as part of the BGC privatisation exercise. Allowing exports, and thereby establishing a linkage with the European gas market, will be an important market discipline on a monopsonist BGC, and ultimately will benefit "UK Ltd".



JOHN WYBREW

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