PRIME MINISTER 6 December 1985

GAS IMPORTS AND EXPORTS

The response of the media and independent commentators to Peter Walker's Gas Bill was adverse. The liberalisation of gas imports and exports has come to assume a wider symbolic importance - a test of the Government's commitment to free markets and competition. The failure to liberalise gas imports and exports threatens to bring the whole privatisation programme into disrepute.

The Essential Difference

No-one is suggesting a totally unregulated free market. The established regulatory régime governing the exploration and development of UK oil and gas resources is working well. The point at issue is the way in which the Secretary of state will use his regulatory powers as regards gas imports and exports. Peter Walker wants to keep the door on imports and exports shut until he is convinced that there is a good case to open it. We and the Treasury want to keep the door open unless there are specific cases where the prospective gas contract would conflict with the national interest.

Peter Walker will use two arguments:

i. **If he now opens the door to exports, little if any use will be made of it.** He may well be right. Probably for most of the next decade, UK producers face a glutted European market which, currently at least, offers no price advantage. (Nonetheless, there may be good sense in smallish quantities of associated gas from northern North Sea oil fields being sold into Europe via Norwegian pipelines.) But in that case, why does he make such a fuss?

ii. **He will also argue that the Treaty of Rome is a constraint.** To open and close the door in a discriminatory way - for example, because you trust BP, but not Esso - would certainly contravene the Treaty of Rome. But that is not the intention. We only want to close the door in specific cases where there is a substantial conflict with the national interest (eg a dampening effect on exploration, or reduced recovery of economically recoverable reserves). Without such a clear conflict, the door should remain open anyway.

Peter Walker may also claim that not even the oil companies are pressing for exports. The truth is that they would rather forego freedom to export than allow BGC freedom to import in a discriminatory way, eg 30p per therm for Sleipner v. 20p-odd per therm for new UK North Sea gas.

The Scope for Compromise

Peter Walker has been trying to reach a compromise with Nigel Lawson. To balance the bargaining strength between a monopsonist BGC and UK producers, he is suggesting incorporating, either in BGC's licence or the legislation, a provision sanctioning the freeing-up of gas exports if BGC threatens to impede UK gas expenditure and development through a discriminatory import policy.

Conclusion

Even if such a compromise were to prevent BGC abusing its monopoly purchasing power, it would fail on presentational grounds. It is important that, at this stage in the privatisation programme, the Government should signal its overriding commitment to free markets and competition. We therefore **strongly** recommend an open door policy, subject to ad hoc exceptions only in those rare cases where there is a substantial, demonstrable conflict with the national interest. Let's back consumers and "UK Limited" rather than Denis Rooke.

JW

JOHN WYBREW