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6 December 1985

Geoff Dart Esq  
PS/Secretary of State  
Department of Energy  
Thames House South  
Millbank  
London SW1

Dear Geoff

#### GAS EXPORTS

Your Secretary of State came to discuss this subject with the Chancellor this morning in advance of E(A) on Monday.

The Chancellor said that freedom to export gas was essential to maintain confidence in the North Sea, and ensure continued exploration and development. He accepted that the counterpart of this was freedom to import, provided imports were competitive. This could be ensured through a non-discrimination mechanism and the need for government-to-government treaties.

Your Secretary of State said he was completely at one with the Chancellor on the need to maintain confidence in the North Sea. But he had spoken to the oil companies, and with the exception of Britoil they did not want freedom to export. BP were "prepared to live with" free exports, and Shell were firmly opposed. He had already promised to send the Financial Secretary copies of the minutes of his discussions with the oil companies, and would arrange for the Chancellor receive them this morning.\* He suggested that the Chancellor might like to talk directly to the oil companies himself. The Chancellor said he would be very interested to see the minutes and might take up your Secretary of State's suggestion. This was certainly not what the oil companies had said to him when he was Energy Secretary.

\*Received at 6.00pm





Your Secretary of State made the following further points:

(i) BGC would strongly oppose freedom to export. They would present it as leading to higher prices, and endangering the security of supply - and the public would see it that way;

(ii) on imports, while he accepted that he had very considerable powers in this area, he did not believe they were sufficient to prevent uneconomic deals like Sleipner;

(iii) it would be necessary to state the policy clearly in the BGC prospectus, and Rothschilds' advice was that this would adversely affect the sale;

(iv) freedom to export was a dramatic policy change and introducing it at the same time as privatisation would have adverse affects on the sale. But there would be a case for it at some stage in the future if there were a surplus of North Sea gas and BGC were not prepared to buy it at a reasonable price.

In response, the Chancellor made the following points:

(i) it was not true that exports would lead to higher prices, and the Government should be able to get this across;

(ii) your Secretary of State should not allow BGC to make public attacks on Government policy;

(iii) he agreed that the policy on exports would have to be stated in the prospectus: but the aim was to maximise the economic benefits, not merely the price obtained for BGC;

(iv) allowing exports would not be a dramatic change of policy: during his time as Energy Secretary we had already been moving towards this position;

(v) to allow exports only once a gas surplus arose would be too late.





Your Secretary of State stressed that he did not want to be soft on BGC. He was prepared to make a very tough statement now that, in appropriate circumstances, the Government would allow exports. The Chancellor pointed out that, if the decision to allow exports were at the Secretary of State's discretion, this would not reassure the oil companies, since they could not be sure that future Energy secretaries would use it. He asked, therefore, whether a commitment could be enshrined in legislation. Your Secretary of State said he would accept this: indeed, he wanted to take a very firm position in relation to BGC.

Yours sincerely  
Tony Kuczys  
A W KUCZYS



CCBG

01 211 6402

Ms Vivien Life  
PS/Financial Secretary to the Treasury  
Treasury Chambers  
Parliament Street  
LONDON

6 December 1985

*Dear Vivien,*

## OIL COMPANY VIEWS ON GAS IMPORTS AND EXPORTS

My Secretary of State promised to send the Financial Secretary a note of yesterday's meetings with Mr Peter Holmes of Shell, and Sir Peter Walters of BP.

Mr Holmes said that Shell would be content with a post-privatisation position which maintained a balance as between British Gas and the oil companies. If the Government relinquished control over imports there was a serious risk that British Gas's successor company would enter into huge contracts with Norway thus "backing out" indigenous North Sea gas and causing stagnation on the UKCS. This would be bad for both the oil companies, the offshore industry and the taxpayer. This control should, as now, be exercised by the Government.

Mr Holmes was also content that the Government should retain control over exports, which was the other side of import control. Shell were already in the international gas market, unlike various other oil companies, who had not thought through their views carefully enough. In practice, he did not expect that exports were likely to be commercially viable, because there was too much cheap gas around, for example in Norway, USSR and Algeria.

Sir Peter Walters said that BP's main concern was that there should be a safety valve to prevent British Gas discriminating against the oil companies and screwing down the price of gas from the UKCS. One way of achieving this would be to free exports, but he accepted the force in my Secretary of State's argument that it would unduly handicap British Gas to adopt such a course whilst imports remained under Government control. Freeing both imports and exports had been BP's preferred answer. But it seemed very likely the result would be British Gas signing up large quantities of Norwegian gas, to the detriment



of UKCS producers. BP, with its worldwide interests, could live with such consequences. However he accepted that this would not be the view of smaller UK oil companies and the offshore industry, who would face very serious difficulties indeed.

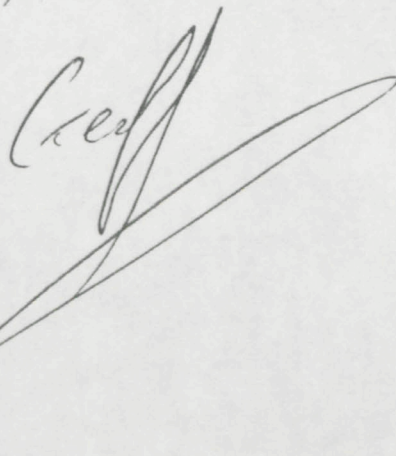
Sir Peter went on to say that Britoil's idea that OFGAS should have a role in British Gas' purchasing policy was nonsense. OFGAS's interest would be in low consumer prices, and hence in low returns to the producers. This would eventually lead to North Sea gas drying up.

Taking account of all these factors, Sir Peter concluded that BP's fears would be largely allayed by a robust and politically durable regime which exposed British Gas to the threat that unrestricted exports would immediately be imposed if they discriminated unfairly against UKCS producers; there was in fact very little likelihood that any significant quantities of gas would actually be exported even if there were an early liberalisation.

Finally, Sir Peter expressed his appreciation that BP's other concerns, that British Gas should no longer be able to make use of privileged access to producers' confidential geological information in their role as an explorer, and that there should be much tougher safeguards against discrimination by British Gas against private suppliers in setting common carriage terms and conditions, had been met.

I am copying this letter to David Norgrove in the Prime Minister's office, and to Rachel Lomax in the Chancellor's office, since the Chancellor expressed a particular interest in seeing BP and Shell's views to my Secretary of State.

*Yours ever,*



G S DART  
Private Secretary



