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NEW NORWEGIAN GAS DEAL

This week, the Norwegians and a group of gas companies from France, West Germany, Holland and Belgium, surprised themselves and the energy world by signing an outline agreement for the sale of nearly 16 trillion cubic feet of Norwegian gas over the period 1993-2020. The deal is Napoleonic in scale and concept. The volume of gas is comparable to the total quantity so far produced from UK fields - more than double the scope of BGC's aborted Sleipner contract.

Unusually, the agreement relates to a proportion of the reserves of Sleipner and the major Troll field, rather than reserves of a single dedicated field. Much tough negotiation lies ahead for Statoil, the Norwegian State Oil Company, and their partners in Sleipner and Troll. Although the volume of gas is exceptional, the price formula is no more than that prevailing for long-term gas supply contracts in Western Europe. Typically, the base price will be closely indexed against future oil prices.

With the return on such a large risk investment heavily dependent on the vagaries of the oil market, Statoil's partners will require solid assurances about the flexibility of the Norwegian petroleum tax arrangements. Previously, the Norwegians have not been inclined to offer enticing tax terms. Their willingness to conclude the new gas deal suggests a more accommodating approach, no doubt motivated by the desire to maintain the momentum of oil and gas activity in Norwegian waters. It seems that this coincided nicely with the gas companies' judgement that now is a good time to be buying up new supplies for the 1990s and beyond.

Comments

1. BGC may be tempted to say "we told you so - the Continental gas companies have now confirmed the soundness of our judgement in wanting to buy a large volume of Norwegian gas". Denis Rooke would be wrong to imply that the Government has damaged BGC's commercial interests by blocking the original Sleipner deal.

   BGC's deal was concluded at a time when the Norwegians still required a premium price for reliability and long-term security; that aspiration has now been dropped. BGC still has an opportunity to contract for uncommitted Sleipner/Troll gas, presumably on the more favourable terms now prevailing in Western Europe.

2. The Norwegian deal looks like marking the start of a new chapter in the European gas market, which has been in the doldrums for the last five years. Although European gas demand is again growing - eg up 4% between 1984 and 1985 - gas buyers have been reluctant to make long-term commitments for new supplies. In arranging to buy nearly 16 trillion cubic feet of high-cost Norwegian gas, the Continental gas companies are in effect saying:

- we foresee a substantial gas supply gap opening up in the 1990s;

- we would prefer not to increase our dependence on Soviet gas or unreliable Algerian gas contacts;

- we would rather underwrite the development of a large volume of high-cost Norwegian gas.

3. That should be a stimulus to would-be UK gas explorers and producers - and some relief to our offshore supply industry. Moreover, on current plans, the Sleipner/Troll pipeline could be routed through the UK sector of the North Sea before landing in Belgium. As such, it would facilitate the export of UK gas into the Continental market.

Alternatively, BGC may yet be able to attract the Norwegians with the cost-saving prospect of using the UK as a "land bridge". In any event, awareness of the buoyancy of the European gas market should favourably influence the climate for the flotation of a privatised British Gas.

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