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Foreign and Commonwealth Office

London SW1A 2AH

15 February, 1985

Dear Charles,

of

Sleipner Gas

You asked for a revised draft message from the Prime Minister to the Norwegian Prime Minister to replace that enclosed with my letter of 14 February. You asked that the new draft should bring out the reasons why HMG had turned down the Sleipner deal.

I enclose a draft which has been agreed with officials in the Department of Energy, who tell us that Mr Walker may have some comments to make on Monday morning.

I am copying this letter to Michael Reidy.

Yours ever,

Peter Ricketts

(P R Ricketts)
Private Secretary

C D Powell Esq
10 Downing Street

DRAFT MESSAGE FROM THE PRIME MINISTER TO THE
NORWEGIAN PRIME MINISTER

I know that our decision not to endorse the agreement between Statoil and BGC for the purchase of Sleipner gas was a disappointment to you. Alick Buchanan-Smith has explained to Mr Kristiansen the reasons for it. I have been following the discussions closely, as I know you have too, and would like to set them out to you personally.

The main reason for our decision is the changed estimates of reserves on the UK Continental Shelf. The draft contract was negotiated against the background of an expected shortfall in supplies of gas in the 1990s, but even when BGC first referred the draft contract to the Government / it seemed very likely that the rate of delivery would be too great for the size of the gap we foresaw. This was one of the main reasons for our approach to your Government in June, and we were grateful for your agreement that we should ask BGC and Statoil to renegotiate the delivery rate. Since the summer, the prospects for gas supplies for the UK Shelf have markedly improved, and exploration and appraisal are at record levels. Estimates of proven and probable reserves have gone up from 40.6 trillion cubic feet (tcf) to 46.8 tcf. With the improved availability of gas from these increased reserves, the purchase of Sleipner gas would have resulted in an over-supply in the 1990's, if development of our

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own resources was not to be put back unreasonably.

Over the same period the dollar has risen against most other currencies and this further enhances the attraction of developing our own resources.

I know that you hoped for an earlier decision from us and am very grateful for the patience which you and your colleagues have shown. I am also very conscious of the domestic factors which have made the delay even more difficult for you. I hope you will accept that for us the decision was a difficult one, and that the time we took to reach it reflected not only the size of the proposed contract, which would have entailed a very large expenditure over a number of years, but the need to come to a considered assessment of our own resources at a time when the estimates were changing rapidly and significantly.

BGC may still need to import gas in the future. If they do, I am sure that Norway will be among the sources they consider. In any event, I am confident that, as in the past, there will be many other examples of co-operation between Norway and the UK, and that relations between us will continue to be as close as they have always been.

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London SW1A 2AH

14 February 1985

*Dear Charles,*Anglo-Norwegian Relations: Sleipner Gas

Our Ambassador in Oslo has reported the reactions of the Government and Opposition parties and the press in Norway to our decision not to go ahead with the British Gas Corporation/Statoil deal for the purchase of Sleipner Gas. Sir William Bentley's verdict is: 'Better than might have been feared but not as good as might have been hoped. Nor can we assume that the worst is over'. In the light of this he has put forward views on action to limit the effect of the decision on Anglo-Norwegian relations.

He recommends a visit to Norway at a high political level, preferably before Easter, and an early message from Mrs Thatcher to the Norwegian Prime Minister, Mr Willoch.

There is, as you know, an outstanding invitation from Mr Willoch to the Prime Minister to visit Norway and we had recommended that this should be taken up early this year in order to avoid the approach to the Norwegian elections due in September. The Foreign Secretary still hopes that the Prime Minister will be able to go to Norway as soon as she may find it convenient, but does not think it would be right to arrange a visit immediately in the wake of the Sleipner decision. This would be seen as too obviously connected with Sleipner, and designed to placate the Norwegians for a decision that was taken on sound commercial grounds.

Sir Geoffrey therefore recommends that the Prime Minister should if possible take up Mr Willoch's invitation next year, if Mr Willoch wins the September elections.

Meanwhile, there is no lack of bilateral contacts. Mr Stray, the Norwegian Foreign Minister, will be spending a weekend at Chevening in March as the guest of Sir Geoffrey Howe, and Lady Young is considering a visit at the end of this year.

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The Foreign Secretary thinks it would be helpful if the Prime Minister were to send Mr Willoch a message. I enclose the draft which Sir W Bentley has put forward. I understand from Michael Reidy (to whom I am copying this letter) that the Secretary of State for Energy agrees and is content with the draft.

Yours ever,
Peter Ricketts

(P F Ricketts)
Private Secretary

C D Powell Esq
10 Downing Street