

I have a lot of sympathy
with Wilson's letter. That is why I
have not signed the reply. If the
pipelines were run wholly by a consortium
of states - surely we could have these
gas for our own chemical industry - because
only large firms could be involved. not,



10 DOWNING STREET

THE PRIME MINISTER

Thank you for your letter of 30 October and attached paper on the gas gathering line. I entirely agree that we should pay close attention to progress on this important project.

The current position is as follows. On the physical aspects, the momentum is being kept up: BP, who are in the lead on the offshore work, are well into the pre-engineering phase, and expect the conceptual design largely to be completed by early next year. Work on preparation of tenders, on survey and on permit acquisition would then get under way. On the onshore work, BGC have let a conceptual design study contract for the St. Fergus terminal and have work well advanced on the other onshore facilities. In a very recent report to the Secretary of State for Energy, the Gas Gathering Organising Group (BP, Mobil, British Gas) consider that a completion date of 1984/85 is still achievable, and they are working to that end.

On organisation and finance, the Organising Group consider that an interim pipeline company should be formed to carry the project forward until adequate gas throughput contracts are in place, and they are deliberating about the structure and financing of that company. This company could be financed by equity, loans, and loan assurances from prospective users of the line and purchasers of gas and NGL.

/ The Norwegians

The Norwegians will decide next Spring on the destination of Norwegian Statfjord gas. There is no clear indication of whether or not they will accept BGC's offer. If they turn it down, it will certainly not be due to procrastination on our part; BGC, the Department of Energy and the Foreign Office (including the Embassy in Oslo) have all paid detailed and continuous attention to the negotiations, with the aim of obtaining Statfjord gas for the new gas gathering line if at all possible. However, Norwegian domestic politics as well as economics will be heavily involved and the final outcome is difficult to forecast at this stage.

You mention the suggestion that BGC's prices for new Northern Basin supplies are causing or likely to cause delay. BGC have never expected that gas purchase contracts, which are extremely complex documents, could be tied up for all or even most of the fields to be connected to the pipeline (many of which have not even got development approval) before substantial finance for the pipeline is needed. I can assure you that, far from not meeting costs, the producers of gas from the central and northern sectors of the North Sea stand to make substantial profits for what in the absence of a gas gathering line would in many cases have been gas flared. The new gas line will therefore be of great benefit to both producers and the nation.

I also know of no reason at this stage to expect the project to cost more than the original estimates which were, of course, cast in terms of 1980 money. We shall not, however, finally be in a position to judge matters until BP and BGC have produced new estimates based on the detailed engineering designs.

In summary, you will see that significant progress has been made and that the picture is not as unpromising as you may have been led to believe. There are naturally interplays of interests in a project of this importance with many bodies involved; and

/ no-one

no-one can be sure at this early stage how things will turn out. Nevertheless, the Organising Group are well aware of the need for the project to be completed speedily and successfully and, given the experience of the people and the organisations involved, I believe that we can be confident about the final outcome.

Eldon Griffiths, Esq., M.P.