

1. MR. SANDERS <sup>MS</sup>
2. PRIME MINISTER

Gas Gathering Pipeline

If you want to change the general thrust of the reply to Eldon Griffiths, I think you will need a meeting with Mr. Howell. The draft reflects the decision that was taken in E in June (Flag A) and Mr. Howell's announcement (Flag B)

*Yes  
Please  
mb*

Ian MacGregor of course raised this issue with you. If you wanted a meeting, I could get a note on his ideas via David Young, and Sir Keith could be invited to expound on them.

I should perhaps point out that one of Eldon's main criticisms is that BGC are not prepared to offer the gas producers high enough prices. But one of the reasons for giving BGC a 25 - 30% stake was to ensure that consumer interests were protected and tariffs kept down. Similarly, it was felt important to keep BGC in the picture because otherwise the existing chemical companies would gain control of all the gas and keep out potential new entrants such as Dow and others in the future.

Your point - that we could have cheap gas for our own chemical industry if the pipeline was owned by a consortium of users who would be charged transfer prices - would only arise if the chemical companies are also the equity owners of the gas. In fact, this is not the case except in a minority of cases. When the gas producers are not also chemical producers, they will ask for the best price they can get.

It might still be the case that the pipeline would be completed more quickly without BGC. But the Department of Energy deny this emphatically: they argue, on the contrary, that to remove BGC now would hold up completion and put at risk our access to the Norwegian gas. Finally, there is not much of a public expenditure issue here. BGC's equity stake will cost £50 - 80m over the next 5 years; and there should be a good return on it.

*TL*