

*Mr Ingham*

Mr Howell wishes to make the statement at Flag A - we think on the whole that a written answer will do. The Treasury have suggested one innocuous amendment - because they are concerned to avoid any loss of revenue through subsidised ethanol prices (Flag B). Sir Keith is generally content (Flag C), and so is George Younger.

PRIME MINISTER

THE GAS GATHERING PIPELINE AND DISPOSAL OF NATURAL GAS LIQUIDS

Agree to  
written answer  
Wednesday, as  
amended  
by  
Treasury?

As you know I established last June an Organising Group to develop proposals for a new North Sea Gas Gathering Pipeline System. The Group has just reported to me on the handling of the natural gas liquids (NGLs) which will be extracted from the natural gas at St Fergus. The Group has:-

- i stressed that decisions on the routing of the NGLs are urgent to the overall time-table of the System;
- ii invited me to decide how the NGLs, particularly the ethane (which will be produced by some 40 different licensees), should be aggregated into quantities sufficient for bulk contracts to be entered into for petro-chemical feedstock;
- iii recommended that the ethane should be separated from the rest of the NGLs at St Fergus and piped separately to users with the processing of the remaining liquids to be carried out at Nigg Bay.

I have been considering these recommendations with Keith Joseph and George Younger. Our objectives are:

- i to safeguard the operational efficiency and viability of the gas gathering system as a whole;
- ii to make as much ethane as possible available to the British Chemical Industry at the most advantageous terms;
- iii to safeguard our tax revenues and so reduce the PSBR;
- iv to protect licensees and other chemical companies against the monopolistic positions held by Shell/Esso and Dow;
- v to ensure that these companies do not use those positions to extract unreasonable charges from the licensees for the use of their processing facilities or land.



The Organising Group's recommendations on the pattern of disposal would suit us well and they, together with Shell, Esso, BP and ICI, have called upon HMG to declare its preference for disposal of NGLs in advance of commercial negotiations. Nevertheless, we are convinced that such overt action would risk the three latter objectives I mention above. (The first two objectives are, of course, protected by the substantial presence of BGC in the pipeline utility). Overt action could also attract opposition on the grounds of discrimination from the US Government and EEC, as well as from disappointed companies and Scottish regions. We are therefore convinced that commercial negotiations must precede any final decisions on the physical disposal pattern.

However, a decision on whether to develop Nigg Bay will be needed early in the New Year if delay to the Gas Gathering System as a whole is to be avoided. Commercial negotiations with the 40 or so different licensees producing the NGLs would not proceed fast enough.

BNOC has a crucial role to play in dealing with these two problems, by exercising its participation rights to buy a majority of NGLs and so, together with BGC, taking the lead as a wholesaler. Allowing BNOC to do this will not only accelerate the commercial negotiations but, since I shall be giving them guidance in support of the five objectives in my second paragraph, will also achieve the disposal pattern we want without overt intervention.

I do not propose that BNOC will have rights over the NGLs remaining to licensees after participation: some may wish to join in with the Corporation but others will not. Direct deals between licensees and ultimate users in respect of the remaining NGLs will act as a check upon BNOC.

I have discussed these proposals with Keith Joseph and George Younger and, despite our natural hesitation about using BNOC in this way, we are convinced that this is essential to achieve our objectives. Accordingly, I propose next week to announce that I wish commercial negotiations to proceed quickly and that, to facilitate this, HMG will not place obstacles in the path



of the exercise by BNOOC of its participation rights. I attach the draft text of the statement I propose to make. I would be grateful for your agreement to my proceeding in this way.

I am sending copies of this minute to our colleagues in E, to George Younger, Norman St. John Stevas, Angus Maude and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'D.A.R.H.', written over a horizontal line.

(D.A.R.H.)

pp. Secretary of State for Energy  
(Approved by the Secretary of  
State and signed in his absence)

9 December 1980.

## DRAFT PUBLIC STATEMENT

Valuable natural gas liquids will be brought ashore by the new Gas Gathering Pipeline. The ethane, in particular, will be an important new feedstock for petrochemical plants in the UK. Timely completion of the facilities for handling these natural gas liquids is essential to the gas gathering system as a whole.

The Organising Group I set up in June has just made recommendations to me on the handling of these liquids. Their advice is that the ethane should be separated from the rest of the natural gas liquids at St Fergus and piped separately to users, with the processing of the remaining liquids to be carried out at Nigg Bay. They recommend that preparatory work should be carried out on an ethane line from St Fergus to Mossmorran, Grangemouth with an extension to Teesside and that an ethane line from St Fergus to Nigg Bay should also be considered. The Organising Group has stressed the urgent need for decisions on the routing of the NGLs. They have invited me to decide how the natural gas liquids should be aggregated into quantities sufficient for bulk contracts to be entered into for petrochemical feedstock.

I have invited the Organising Group to plan on the lines recommended while commercial negotiations proceed to determine the pattern of disposal of the NGLs.

At least seven companies have expressed an interest in purchasing the ethane as feedstock for ethylene manufacture and several licensees have expressed a need for reassurance that they will be able to regain access to natural gas liquids after onshore fractionation into component products. It is important that commercial negotiations for the sale and processing of NGLs should proceed quickly to a point which enables the pattern of onshore disposal to be settled. To facilitate this, clarity is needed on the rights and role of the various parties with an interest in the system. I have therefore today confirmed to the British National Oil Corporation that I shall not stand in the way of the exercise by the

/Corporation

Corporation of the rights to natural gas liquids which it enjoys under participation agreements. This will identify to prospective purchasers a substantial seller able to enter promptly into disposal commitments. The British Gas Corporation has informed me that it will cooperate with BNOG in this process, as appropriate. Taken together with the Organising Group's work on the terms for access to land or facilities needed for processing the rest of the NGLs, this should enable the pattern of the onshore facilities to be determined. There will be no obligation on licensees to sell the remainder of their natural gas liquid stream through the agency of BNOG.

X // I have invited the Corporation and the Organising Group to seek, in these negotiations to maximise petrochemical activity in the UK based on ethane. I have asked them to ensure, so far as possible, that facilities to process and use the NGLs will be available in accordance with the timetable envisaged for the gas gathering pipeline as a whole, including provision, if appropriate, for Norwegian liquids as they become available. They are to ensure that, subject to participation, licensees can recover their own material after fractionation and that later licensees and customers have access to the system on reasonable terms. I have made it clear that BNOG should not commit itself to investment in petrochemical plant.

I expect all parties to the commercial negotiations to conduct them constructively and speedily. It would not be acceptable for any one party to block agreement on reasonable terms if this threatened to impede timely completion of the Gas Gathering system.

X per Trany has proposed the following amendment of this sentence -

4 I have invited the Corporation and the organising group to seek in these negotiations to maximise the national economic benefit and as part of this to recognise the importance of petro-chemical activity in the UK based on ethane."