



Secretary of State for Industry

DEPARTMENT OF INDUSTRY
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Tim Lankester Esq
 Private Secretary to the
 Prime Minister
 10 Downing Street
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Prime Minister

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The Departments concerned
 intend to put a paper on
 this to their ministers by
 mid June.

WM
 21/5

Dear Tim

I think that the Prime Minister will wish to be aware that Esso Chemical Company have informed this Department and also the Scottish Office and the Department of Energy, at Permanent Secretary level, that they may decide to abandon the Mossmorran cracker project in Scotland, unless special Government help can be made available. You will recall that the Process Plant Association has recently been pressing the Government to ensure that the bulk of the orders for equipment for this project should be placed with UK manufacturers.

2 The cracker is the second part of a combined Shell/Esso project to use gas from the Brent field: the first part is a fractionator to separate the natural gas liquids, which Shell are building. Esso say that, although at the time of decision in 1979/80 they had seen some disadvantages in embarking on this greenfields project, these were outweighed by the advantages. Since then, however, a number of adverse changes have occurred which have reduced the estimated return on their capital expenditure to a level which would not be acceptable to their share-holders. These include a sharp deterioration of market prospects for petrochemicals because of high oil prices and surplus ethylene production capacity in Europe; a likely increase of 50 per cent in project costs; an increase in the rates bill, because of the basis on which outside industrial plant in Scotland is assessed; doubts about the availability of additional ethane at an acceptable price (this will be needed from the proposed gas gathering scheme, because of an estimated reduction in supplies from Brent); and the increased burden of Petroleum Revenue Tax and the Special Petroleum Duty.

3 In their meetings with the three Departments, Esso have indicated, that because of these changes, the project is no longer economically viable. They would like to continue with it if a way could be found of restoring their estimated return. They have suggested, therefore, that this could be achieved if the Government could help by lessening the tax burden and guaranteeing the availability of the additional ethane needed at an acceptable price. Esso are looking for a decision by the end of June.



Officials in the Departments concerned are examining closely the various complex issues raised by Esso and plan to put a joint paper to their Ministers about mid-June, prior to a meeting with the company at Ministerial level. For the moment, Esso's news is being treated as strictly in confidence: apart from the Departments, Esso have told only their partners, Shell. Esso may have difficulty in keeping it quiet and this is an added reason why the Prime Minister should know now.

I am copying this letter to the Private Secretaries of the Chancellor of the Exchequer, the Secretary of State for Scotland and the Secretary of State for Energy.

Yours ever

Catherine

CATHERINE BELL
Private Secretary