

10 DOWNING STREET

Tim.

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It looks as if Energy now think the Gas-gathering Pipeline scheme is going to fall through. The latest letter seems to be setting out reasons why Treasury, and Oil Taxes, are to be blamed rather than Energy. If we are busy allocating blame for failure we must believe failure is likely!

The Government could derive great damage from this. Politically it would be made to appear that the National Interest had somehow been lost in our pursuit of Privatization. The issues are too complicated to be understood, but the impression would be left that we had failed and Norway had succeeded.

Our competence would be called into question; why are we going to throw away a lot of valuable gas?

There now appears only one solution which will result in no delay to the building program. That is the Morgan Grenfell solution, which I do not begin to understand, but which will lead to the building program and the orders for BSC and others. If the Treasury cannot grit their teeth and say, "we agree the initial financing is outside the PSBR", then we may have to explain to an unemployment battered Public that the PSBR requirements demand that the scheme does not go ahead. This could be the trigger which makes people feel certain that our economic policies are so unrelated to our present employment problems, that any change would be an improvement.

Daint.