

*A signed  
letter*



Prime Minister

GAS GATHERING PIPELINE

In my minute of 4 August I recorded my agreement with the Chancellor that we should make one final attempt, using an honest broker, to enlist financial support from the oil companies for the launching of the gas gathering project. The Chancellor and I agreed that Mr John Liverman should take on that role. He has now completed an intensive round of discussions with the companies. I attach a copy of his report.

Mr Liverman's report confirms that it will now not be possible to arrange initial majority private sector financing in time to launch the project on that basis. The Organising Group had reached the same conclusion. In Mr Liverman's round of discussion it was made clear that the companies were free to suggest changes in our guidelines or any other conditions they would need. Even then only three companies (BP, Mobil and Hamilton) - not nearly enough to take a majority share - showed a really positive response. Those that did show interest laid down major conditions which could not be met quickly, if at all. Recent changes in North Sea taxation have clearly soured company attitudes.

The idea of private sector financing at the outset is therefore now closed. If the project is to survive, major contract commitments will have to be made in the course of September. We therefore need to take a final decision on financing in the next few days. Your office has arranged a meeting on 1 September to discuss this in the light of Mr Liverman's report. Two courses are open to us:

- (a) to allow British Gas to provide the initial financial support necessary to launch the project;

(b) to reject that option on PSBR grounds and announce that the project has collapsed.

I am quite clear that we should now authorise British Gas to underwrite the initial financing. I am confident that once the project is launched on that basis and seen to be going ahead oil companies will start to join in. As Mr Liverman says, many of the companies are in a negotiating stance which will persist until they know that our minds are made up. Those who favour alternative piecemeal schemes will be forced to change their ideas. We should then be able to negotiate many of them on board by meeting some of the concerns Mr Liverman has identified. The PSBR burden and the call on public expenditure would be temporary.

The alternative of abandoning the scheme would, I am convinced, be both economically wrong and politically disastrous. Both the study carried out jointly by my officials and the Treasury and the CPRS report recognised that the integrated pipeline was economically the most favourable solution for the nation. We have publicly expressed our support for the project on many occasions; its abandonment now would be a severe blow to the Government. Criticism of the delay in launching this project is mounting in Scotland, in the media and in Parliament. The critics include some of our own supporters. There is also anxiety in industry lest the major benefits of the project for suppliers, contractors, employment and the petrochemical industry be lost.

To abort the project on the grounds that it would add potentially to the PSBR would be inexplicable. We would be accused of abandoning a project of great national advantage, with a large net benefit to the economy on the grounds of economic argument which is, at best, debatable. It is not clear what our defence would be. The concept of "crowding out" other investment is really not an argument in this case. Whether the public or the private sector finances it initially,



there is surely an overwhelming case for a project which, for an investment of about £1.5 billion, will land some £25 billion worth of gas and which can be readily adapted in due course to the private sector utility pattern which we seek. Moreover the scheme is the best way of ensuring satisfactory gas recovery in the North Sea in the longer term. It is much the best way of minimising wasteful flaring. Perhaps even more important, this scheme would place us in an excellent position to bid for major new Norwegian gas discoveries which might otherwise go the European mainland.

I very much regret that because of my commitment to visit Japan I shall not myself be able to attend the 1 September meeting. Hamish Gray, who has of course been closely involved in this project, will represent me. I am copying this minute and Mr Liverman's report to the Chancellor, the Secretaries of State for Foreign Affairs, Scotland and Industry, Sir Robert Armstrong and Mr Robin Ibbs.

*John Chadwick*

pp Secretary of State for Energy

26 August 1981

(Approved by the Secretary of State and signed in his absence)