



cc A Walter
A Duguid

PM/81/41

PRIME MINISTER

Gas Gathering Pipeline

1. In his letter of 26 August David Howell argues that we should now authorise British Gas to underwrite the initial financing of this major project, despite the PSBR and other disadvantages.
2. I find David Howell's arguments entirely convincing. The proposed gas gathering pipeline is perhaps the largest single economic project with which this Government has been associated. The calculation of its longterm profitability, as well as its contribution to our national energy policy, is generally recognised and has been endorsed, I understand, by the recent CPRS study. Private companies are, for understandable if narrow reasons, unwilling to take the initial risks. This is thus pre-eminently one of those cases where Government must take a hand.
3. There are also some important political considerations. Over the past two years the Government has invested a good deal of capital, both at home and abroad, in its advocacy of this project. To abandon it could only damage confidence in the Government's determination to pursue its objectives consistently and Britain's ability to manage large scale major projects successfully.

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4. The gas gathering pipeline could give us the capacity to export gas to the Continent. The economic arguments remain to be worked out. But a pipeline network, involving the Norwegians as well, would be a contribution to European energy security, about which President Reagan expressed his concern at the Ottawa Summit. If we abandon the pipeline that option would be foreclosed.

5. Earlier this year I reluctantly agreed that licences for two French companies wishing to explore in the North Sea should be withheld until they had agreed to put their gas into our pipeline. They are now beginning to move. And we have worked hard to persuade the Norwegians to put some of their gas through our pipeline despite their preference for their own rival project. Though for the time being the Norwegian decision has gone the wrong way I am not sure that that is the end of the story. If we abandon the project, our credibility with the French and Norwegians will be undermined. The last is not a decisive consideration; but it needs to be borne in mind.

6. I am sending copies of this minute to the Chancellor of the Exchequer, the Secretaries of State for Energy, Scotland and Industry, Sir Robert Armstrong and Mr Robin Ibbs.

(CARRINGTON)