



SCOTTISH OFFICE  
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PRIME MINISTER

GAS GATHERING IN THE NORTH SEA

I understand that you propose to discuss with colleagues on 1 September how we are to proceed with the proposed gas gathering scheme. I regret that I will not be able to attend but Alex Fletcher will do so and will cover any specific aspects which emerge from the Report submitted by Mr Liverman. I would like, however, to underline the importance I attach to the project.

The concept of an offshore gas gathering system goes back many years but it was the BGC/Mobil study in 1979 which gave the necessary fillip towards realisation. The Government's endorsement of its recommendations attracted widespread support from all sectors of industry and we have been able to cite our promotion of it as evidence of our intention to obtain maximum economic benefit for the nation from North Sea oil and gas developments.

A crucial feature of this scheme is that, despite other uncertainties, the economic benefits are not in doubt. As the CPRS study made clear, gas and gas liquids valued at £25 billion will be secured in return for an investment of only a fraction of that amount. There is no alternative available on which we can rely with any confidence likely to yield so high a return to the nation. Indeed it is evident from all the appraisals that have been carried out, including one undertaken recently jointly by the Treasury and the Department of Energy, that the gas gathering project would produce a level of return which would justify it being accorded a high priority as a capital project.

And there is much more at stake than the yield to the nation in terms of the financial value of the scheme. If we failed to proceed with the project, doubt would be cast both at home and abroad (with unfavourable comparisons being made with the Norwegian approach) on our ability to manage our reserves efficiently. There would also be a major loss of potential benefit to British industry through the work which the scheme would provide. Again, gas would necessarily be forfeited and one of the major industrial benefits of the current gas gathering proposal - the scope offered for the aggregation of large quantities of gas liquids - would be very seriously jeopardised. This last aspect would be a particular loss to Scotland (and potentially also to Tees-side) in reducing the scope for using the feedstock to secure existing petrochemical operations and to provide the basis for new developments such as those proposed by Dr Hammer of Occidental in Grampian Region and by Dow for the Cromarty Firth.

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We have then a project whose benefit to the nation far outweighs the projected costs, and yet the private sector is unwilling to invest in it at the outset. This was perhaps inevitable given our concern to ensure that the pipeline company did not exploit the monopolistic position in which it would find itself with the result that the investors in the pipeline do not see the prospect of substantial economic gain to the nation reflected in sufficient benefit to themselves. But we must secure private participation, and I think this can now be done only by some adjustment of the original guidelines. I appreciate that in doing so and in authorising the backing necessary to get the scheme launched in time there will be PSBR implications but I believe it would be a great mistake to allow a scheme of such importance to founder because we find ourselves confronted by a problem in setting out the mechanics of its financing. The only alternative of multiple development offshore would not only be much inferior in terms of national benefit in my opinion but would also result in a significant short run increase in the PSBR through the reduction that would occur in Government receipts from offshore taxation.

I am copying this minute to Geoffrey Howe and David Howell. I have also now seen David Howell's minute to you of 26 August and am also therefore copying this to Peter Carrington and Keith Joseph, and to Sir Robert Armstrong and Mr Ibbs.

*A.S. Wilson*

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

29 AUGUST 1981

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