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Gas 7 July 79 GGP File + DW

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10 DOWNING STREET

From the Private Secretary

1 September 1981

BF 9.9.81

Dear Julian

As you know, the Prime Minister held a meeting this morning to review the position on the gas gathering pipeline, in the light of the Liverman Report submitted under cover of your Secretary of State's minute of 26 August. Mr. Gray, accompanied by Mr. Jones, was present. Others present included the Chancellor, the Chief Secretary and Mr. Wicks, Mr. Fletcher with Mr. McClellan, Mr. Ibbs and Mr. Walters.

The Prime Minister said that the information which had been submitted to her did not provide an adequate basis on which to reach a decision about investing the sums of public money which would now be required to go ahead with the pipeline. The economic viability of the project was not demonstrated in the papers submitted to her. This was dependent on the future pricing policies for gas and in particular on the Government's decisions about the British Gas Corporation's monopsony. Most of the pipeline's capacity would be used only if there were suitable incentives, that is to say high enough contract prices, offered to the oil companies. Furthermore, it was not clear how the integrated pipeline option would affect plans by private operators to operate their own pipelines. While she was sure that these questions could be answered, Ministers would have to consider them before reaching decisions.

In discussion, it was pointed out that the three most recent studies of the project saw the integrated pipeline project as in the national interest. If it did not go ahead, there would certainly be some loss of gas. The Government was widely believed to be committed to the concept, although to a substantially privately funded project, and there would be a major presentational problem in explaining any decision to back out at this stage. The British Gas Corporation recognised the importance of pricing policy in the development of some of the major gas fields, and greater flexibility had already been introduced into their approach. Total and Elf were now coming round to the idea of putting their gas into the pipeline.

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On the other hand, it was pointed out that the oil companies would have little incentive to join in financing at a later stage on the basis now proposed. Many of them would themselves prefer the flexibility of independent pipelines. On the most favourable position assumptions, no more than 35% of the equity finance would come from the private sector. Whilst the Bank of Scotland was apparently ready to provide loan finance of around £700 million, this would require a Government completion guarantee. In the present state of the petro-chemicals market, the definite advantages of the project were limited to some increase, but not for two years, in overall gas supplies and a bulk supply of low-cost ethane for existing users. The British Gas Corporation would only be prepared to go ahead with the project with a guarantee that the monopsony would remain.

The Prime Minister recognised that the Government would have to decide whether to give the go ahead shortly, so that alternative private sector schemes would not be further stalled. Ministers therefore needed to be provided with a factual assessment of the prospects of the project and the economic case for it. She asked that this should be prepared by the officials present at the meeting, consulting others as necessary. This should, in particular, look into the basis of the Bank of Scotland's interest in providing loan finance. Ministers would need to meet again in the next week to reach a conclusion.

I am sending copies of this letter to John Kerr and Terry Matthews (H.M. Treasury), John Wilson (Scottish Office), Gerry Spence (CPRS) and David Wright (Cabinet Office).

Yours ever

Mike Pattison

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Department of Energy.