



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

BF 17.7.81
(pm)

Am. Min. Sec.

Further report on
Moss Morran negotiations.

CONFIDENTIAL

Tim Lankester Esq
Private Secretary
No 10 Downing Street
LONDON SW1

*Please may I be
kept in close touch.
MS*

8 July 1981

*IL 877
12.1977*

Dear Tim,

*(Am. Sec.)
Transmit
with letter
dated 12.1977*

Catherine Bell wrote to you on 21 May reporting the approach from Esso Chemicals about its Moss Morran cracker project: unless Government assistance was forthcoming, they said that changed circumstances might force them to cancel the project.

Officials in the Departments concerned have gone over the Esso case in great detail and at a meeting on 23 June, which my Secretary of State chaired, the company listed the various difficulties which it was facing. They concentrated on four areas in which they sought Government assistance. These were (i) exemption of ethane used from petrochemicals from the increased tax burden of petroleum revenue tax and the special petroleum duty, (ii) clarification of the British Gas Corporation's (BGC's) role in the market and assurances that supplies of ethane additional to the feedstock from the Shell/Esso Brent field would be available to them at prices consistent with the development of a greenfield site, (iii) some relief on local authority rates, and (iv) ratification of the existing contract under which Esso Chemicals buys ethane from Esso Petroleum.

Following consultations with the Chancellor and colleagues in Industry and Energy, my Secretary of State again met the company on 1 July when he indicated that the Government were prepared to consider with the company the legislative changes which would be required, and which could be introduced in the 1982 Finance Bill, in order to put sales between affiliates of the same company, such as Esso Petroleum and Esso Chemicals, on the same footing for taxation purposes as "arms length" deals between wholly separate companies. On local authority rates the company were assured that we were aware of the anomaly in rating practice which placed petrochemical plants in Scotland at a disadvantage by comparison with those in England and Wales and that we would be introducing legislation - before rates fell to be paid on the Moss Morran cracker - to remedy the position. Mr Hamish Gray reassured the company that neither the Government nor BGC envisaged entering the market on a large scale and that, therefore, there was every prospect of supplies being available to the petrochemical industry, which we were keen to encourage, at prices which would be determined by market forces. BGC's energy requirements would be limited. The one area in

Do not understand the rating point.

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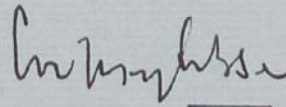
which it was made clear that the Government could not give assistance, because of the high cost involved and its wider implications, was Esso's request for exemption from taxation of ethane used in petrochemicals. In outlining the assistance we were prepared to give, my Secretary of State stressed that in the event of the project going ahead, we would expect UK industry to be given every opportunity to compete for the work.

The company, accompanied this time by Mr Raisman, Chairman of Shell and Mr Whalley, Managing Director of Shell Chemicals, called again this morning. They acknowledged that the assurances given would be of considerable help but maintained that some concession would be necessary to offset the cost of PRT/SPD introduced since the project was first conceived. They proposed that the basis for tax should be the alternative price which would be obtainable if, in the event of the project not going ahead, the gas liquids were sold to BGC under an existing contract. Mr Peter Rees has agreed that the Inland Revenue would be prepared to examine this and we have undertaken to give the company a decision in principle within the week.

You will appreciate that we would regard the possibility of the cancellation of the Esso order with grave concern. North Sea developments and the prospects of downstream activities have constituted an area which we have long held out as one of considerable potential growth. Cancellation of the project would be a serious blow in itself, but would also have repercussions on other potential petrochemical developments, for instance those associated with the proposed gas gathering pipeline. We shall therefore continue to consider ways in which we might meet the company's requests and we shall be looking urgently at their latest proposal in relation to the contract price: we very much hope that it will prove possible to do something on this. I will keep you informed of developments.

I am copying this minute to John Wiggins (Treasury), Ian Ellison (DI) and to Julian West (Department of Energy).

Yours truly,



GODFREY ROBSON
Private Secretary