

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT
E(80) 19th Meeting COPY NO 55

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at
10 Downing Street on
WEDNESDAY 11 JUNE 1980 at 9.00 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon William Whitelaw MP
Secretary of State for the
Home Department

The Rt Hon Lord Carrington
Secretary of State for Foreign
and Commonwealth Affairs

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

The Rt Hon James Prior MP
Secretary of State for Employment

The Rt Hon Peter Walker MP
Minister of Agriculture, Fisheries
and Food

The Rt Hon Michael Heseltine MP
Secretary of State for the
Environment

The Rt Hon John Nott MP
Secretary of State for Trade

The Rt Hon David Howell MP
Secretary of State for Energy

The Rt Hon John Biffen MP
Chief Secretary, Treasury

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon George Younger MP
Secretary of State for Scotland
(Items 1 and 2)

Viscount Trenchard
Minister of State,
Department of Industry

Lord Strathcona
Minister of State,
Ministry of Defence
(Item 1)

Mr Paul Channon MP
Minister of State,
Civil Service Department

Mr J R Ibbs
Central Policy Review Staff

SECRETARIAT

Sir Robert Armstrong
Mr P Le Cheminant
Mr D J L Moore (Items 1 and 2)
Mr G D Miles (Item 3)

CONFIDENTIAL

CONFIDENTIAL

CONTENTS

Item	Subject	Page No
1	OPEN-ENDED CONTRACTS	1
2	GAS GATHERING LINE	3
3	INTERNATIONAL CONFERENCE CENTRE	8

CONFIDENTIAL

RESTRICTED

RESTRICTED

1. OPEN-ENDED CONTRACTS

The Committee considered a note by the Secretary of the Cabinet E(80) 45 covering a memorandum by officials about open-ended contracts.

THE PRIME MINISTER said that the report by officials suggested that, given the great variety of circumstances in Government and Nationalised Industry contracts, there was a case for a flexible approach to the inclusion of break clauses in such contracts. There had, however, been cases where open-ended contracts had led to substantial loss. It was for consideration whether in future no open-ended contracts should be concluded without the express agreement of a Minister; and whether an instruction to similar effect should be given to nationalised industries.

In discussion the following points were made -

- a. There were circumstances in which it was commercially preferable not to have a break clause, and a break clause was useful only if an alternative source of supply was available. It might, however, be advisable to require the approval of a Minister for the conclusion of any significant international contract which did not have a break clause.
- b. It would be inconsistent with the Government's general approach to the nationalised industries to intervene in their commercial judgment of the form of their contracts. It was, however, important that they should be fully aware of the Government's views on the need for caution in relation to open-ended contracts.

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed that the present practice, which allowed for the inclusion of break clauses at the discretion of Departments, should continue. Departmental Ministers should, however, expressly approve any significant international open-ended contract. Otherwise, it was for each Minister to approve the arrangements most appropriate to his Department. In the case of the nationalised industries it would not be

RESTRICTED

RESTRICTED

appropriate for sponsoring Ministers to give formal instructions to their Chairmen or to write to them, but each should take the opportunity to raise the question informally with their Chairmen, and to mention Ministers' concern over the problem and to discuss in particular the special circumstances of international contracts.

The Committee -

1. Invited the Chancellor of the Exchequer to arrange for the Treasury to issue instructions to Departments reflecting the Committee's decision on international contracts.
2. Invited the Ministers sponsoring the nationalised industries to draw the attention of the Chairmen of their industries to the question of open-ended contracts on the lines indicated by the Prime Minister in her summing up of their discussion.

RESTRICTED

CONFIDENTIAL

CONFIDENTIAL

2. GAS GATHERING LINE

The Committee considered a memorandum by the Secretary of State for Energy E(80) 52 on proposals to build a gas gathering pipeline to bring ashore gas from existing and prospective oil and gas fields in the northern basin of the North Sea.

THE SECRETARY OF STATE FOR ENERGY said that, following a feasibility and design study, the British Gas Corporation (BGC) and Mobil had recommended that a gas gathering line should be built as soon as possible. The project appeared sound in economic terms. It was essential to meet the target date for completion of 1984-85 both to avoid the wasteful flaring of gas and to convince the Norwegian Government that they should sell gas from their Statfjord field to Britain through the new line rather than divert it, possibly through a pipeline of their own, either to Norway or elsewhere in Europe. It was proposed that the pipeline should be constructed and operated by a private sector company with around 80 per cent debt finance and 20 per cent equity. In order to balance the interests of the financial institutions and producers, who would be looking for high tariffs, and of consumers he proposed that the BGC should have a 35 per cent share of the equity, the financial institutions 35 per cent, the producers 20 per cent, and other consumers, including possibly the Norwegians, 10 per cent. It was important that BGC should have a significant stake to ensure that the consumers' interests in keeping tariffs down were represented, to encourage the participation of the Norwegians, to keep up the momentum on the project, and to influence the placing of orders for construction of the line. On the basis he had proposed, BGC's contribution to the equity would be in the range of £50 million/£80 million over the next five years and no other expenditure by the pipeline company would count against the Public Sector Borrowing Requirement. British Petroleum (BP) were now interested in the project and had put forward proposals, which would have to be explored further, for piping natural gas liquids (NGLs) southwards to link with petro-chemical facilities at Mossmorran, Grangemouth and Teesside, rather than to Nigg Bay where the Dow Chemical Company wanted to develop a plant. He proposed that an Organising Group should now be established to work out the

CONFIDENTIAL

29

31

33

37

39

41

4

4

4

21

23

25

27

97

CONFIDENTIAL

detailed arrangements for the project and that it should be chaired by a representative of BGC with representatives of Mobil, BP and a financial adviser as members. He invited the Committee to agree to an early announcement of these proposals.

In discussion it was generally agreed that the Government should encourage the construction of the pipeline as soon as possible and the following points were made -

a. While BGC should have a substantial stake in the equity of the pipeline company, this need not and should not be as high as 35 per cent. This was a major project to which there was every chance of attracting private sector finance and it was, therefore, right to keep the public sector stake to the minimum necessary. Neither industrial nor domestic consumers would necessarily accept that BGC were representative of their interests and it might be better to reduce the proposed share of BGC and increase that of other consumer interests. A 25 per cent stake would be sufficient to give BGC a blocking vote on changes in the articles of association which would incorporate the tariff philosophy. The Secretary of State for Energy should have latitude to negotiate on this, but his aim should be for BGC's holding to be in the range of 25-30 per cent.

b. The proportion of 80 per cent debt to 20 per cent equity seemed very high. The financial institutions had indicated that it would be welcome to them, but this could well be because they were assuming that in practice, if not in law, their loans would be guaranteed by the Government. The Organising Committee should be invited to look at the possibility of a higher proportion of equity, and they should be left in no doubt that the Government had no intention of guaranteeing the loans.

c. Any revision of the overall ratio of debt to equity, taken with the decision on BGC's share of the equity, should be such that the Corporation's total contribution should not be higher than the present assumption of £50 million/£80 million spread over the next five years. Any financing by BGC above this range would have to be offset by savings from elsewhere within their programme.

4
CONFIDENTIAL

CONFIDENTIAL

d. The financial institutions, and probably the Norwegians too, would support the proposal that a representative of BGC should chair the Organising Group. In the interests of keeping public sector involvement in the project to a minimum, however, the Secretary of State for Energy should try to find an alternative candidate from the private sector.

e. It was very important that the British Steel Corporation (BSC) should get as much of the order for the pipe as possible. They should be encouraged now to take steps to ensure that they could supply pipe of the diameter required and at a suitable price. As high a proportion as possible of the other equipment should be ordered from British firms.

f. It would be important to avoid planning delays for the onshore facilities and the Secretaries of State for Scotland and the Environment should be involved at an early stage. In the further consideration of whether NGLs should be piped to Nigg Bay or southwards the importance of bringing new employment possibilities to the north east of England should be given weight.

THE PRIME MINISTER, summing up the discussion, said that it was agreed that the Government should strongly encourage the construction of the proposed pipeline with a view to its completion by 1984-85. The Committee agreed in principle with the proposals of the Secretary of State for Energy that the pipeline should be constructed and operated by a private sector company, with a range of consumer, producer and financial interests, and that more detailed proposals should be formulated by an Organising Group consisting of BGC, Mobil, BP and a financial adviser. He should invite the Organising Group to consider in particular whether there should be a higher proportion of equity funding than the 20 per cent envisaged. The Organising Group and the financing institutions should be left in no doubt that the Government was not guaranteeing the loan financing. The Committee agreed that BGC should have a significant equity stake in the Company but they were not persuaded that this should be as high as 35 per cent. The Secretary of State for Energy had discretion to negotiate further on this. But

5
CONFIDENTIAL

98

CONFIDENTIAL

his aim should be to leave them with a minimum of 25 per cent and no more than 30 per cent and, if necessary, to give other consumer interests more than the total of 10 per cent at present suggested. If BGC had to contribute more than the maximum of £80 million over the next five years, the balance would have to be offset by savings from within their existing public expenditure provision. As the objective was to keep public sector participation in the project to the minimum, it might not be appropriate for the Organising Group to be chaired by a representative of BGC; the Secretary of State for Energy should consult further with the Chancellor of the Exchequer and for the Secretary of State for Industry on the alternatives. It was essential that British Manufacturing Industry, and BSC in particular, should be given every opportunity to supply the pipeline and other equipment for the project, provided that they could do so in time and at the right price and quality. In the further discussions of the options for onshore handling of the NGLs it would be important to bear in mind the need for employment opportunities in the north east of England as well as Scotland. It was also important that delays from obtaining necessary planning permissions should be kept to a minimum, and the Secretary of State for Energy should keep in close touch from the outset on this with the Secretaries of State for the Environment and for Scotland. The Secretary of State for Energy should announce the Government's broad conclusions in the week beginning 16 June. In the meantime, and in consultation with the Foreign Secretary, he should inform the Norwegian Government of his proposed announcement and take steps to encourage them to sell their gas to Britain through the new

The Committee -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
2. Invited the Secretary of State for Energy -
 - i. To arrange for British Gas Corporation's share holding in the pipeline company to be in the range of 25-30 per cent;
 - ii. To consider further, in consultation with the Chancellor of the Exchequer and the Secretary of State for Industry, the possibility of appointing a Chairman of the Organising Group from the private sector.
 - iii. To arrange for the Organising Group to consider in particular whether the ratio of equity to debt in the finance raised by the company should be higher than at present proposed.

CONFIDENTIAL

CONFIDENTIAL

- iv. To consult closely with the Secretaries of State for the Environment and for Scotland on the planning procedures for development of the onshore facilities.
- v. In consultation with the Foreign and Commonwealth Secretary, to inform the Norwegian Government of the Government's proposals and of his announcement of them.
- vi. To announce to the House of Commons in the week beginning 16 June the Government's broad conclusions on the gas gathering pipeline.

3. Invited the Secretary of State for Industry to encourage British Steel Corporation, and British manufacturing industry generally, to make preparations to supply as high a proportion as possible of the orders for the construction of the line and of the onshore facilities.

CONFIDENTIAL

CONFIDENTIAL

CONFIDENTIAL

3. INTERNATIONAL CONFERENCE CENTRE

The Committee considered a memorandum by the Secretaries of State for the Environment and for Foreign and Commonwealth Affairs, E(80) 51, seeking agreement in principle to the building of an International Conference Centre on the Government-owned site at Broad Sanctuary, Parliament Square.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that the Broad Sanctuary site had been standing vacant for almost 30 years, and was an indictment of the failure of successive Governments to take decisions on its use. There was an undoubted need for such a Conference Centre in Britain, and the proposal, which had outline planning permission, and the backing of the Royal Fine Arts Commission, would be a very suitable use for the site. The project could be accommodated within the public expenditure ceilings currently envisaged. Even at this time of severe public expenditure restraint, Britain should demonstrate its national pride and self-confidence by building a modern Conference Centre, to replace the makeshift arrangements which have been used up to now.

THE SECRETARY OF STATE FOR FOREIGN AND COMMONWEALTH AFFAIRS said that Britain was the only country in the world without a suitable purpose-built Conference Centre. The cost of providing the specialist facilities needed for international conferences on a recurring ad hoc basis would go a long way to offset the cost of a new Centre. In addition, if a good Conference facility were available, the United Kingdom would attract more international conferences, with consequent benefit to the economy. He strongly supported the proposal, which would allow the United Kingdom to host Conferences in a proper style.

In discussion the following main points were made -

- a. The site was restricted and because of its proximity to Westminster Abbey was environmentally very sensitive. A building which would meet the requirements of a conference centre was likely to arouse environmental opposition, even though ^{APPROVED} ~~opposed~~ by the Royal Fine Arts Commission. Indeed this would probably apply whatever building were proposed. A more acceptable public use for the site might be the creation of a park.

CONFIDENTIAL

CONFIDENTIAL

b. The proposal laid stress on the need to provide a suitable facility for the third United Kingdom Presidency of the European Community in 1986/87. It seemed unlikely that this could be relied upon, since the earliest forecast completion date was Spring 1986, and experience with other major public contracts on which there was a known deadline showed that industrial problems could well prolong the construction period. There was a danger that an uncompleted and strike prone prestige building on so conspicuous a site would act as a continuing reminder of the current problems of British society. The building itself, and any delays to it, would be attacked as examples of profligate expenditure; the environmental lobbies would oppose it; and industrial agitators would do their best to stir up trouble.

c. A building on the site would create additional traffic, in the already congested environment of Parliament Square.

d. The possibilities of a private sector building had been rejected, firstly on the grounds that the Government would not be prepared to sell outright, and secondly that specialist facilities, such as translation and security, needed for a modern Government Conference Centre would make it unattractive as a commercial proposition. If the private sector provided a conference centre exclusively for Government use, this would be more costly. On the other hand, the Government's prospective useage of the centre would not occupy it fully and the possibility of some joint arrangement with the private sector might be further explored.

e. Other possible locations for a conference centre should be further examined. The possibility of remodelling the office accommodation at Somerset House should be considered, as should the possibility of accommodating the Parliamentary Telephone Exchange in the rebuilding of Richmond Terrace.

THE PRIME MINISTER, summing up the discussion, said that the proposal had raised issues which would need to be considered further by Cabinet. The Secretary of State for the Environment should provide a memorandum discussing possible

CONFIDENTIAL

CONFIDENTIAL

alternatives to building a conference centre on this site, including the cost and practicability of converting the site to a park. He should also set out the cost of providing alternative accommodation for the International Conferences which the United Kingdom was inevitably required to host. He should consider further whether there was any possibility for private sector involvement, and if so the merits of such a course. The Committee noted that the Home Secretary would ensure that the views of the Metropolitan Police on the traffic and security aspects had been obtained. The Committee were agreed that it was important that a decision of some kind about the future of the Broad Sanctuary site should now be reached, so that the site would cease as soon as possible to be a mere hole in the ground.

The Committee -

Invited the Secretary of State for the Environment to submit a memorandum to Cabinet, seeking a decision both on the Conference Centre and the future use of the Broad Sanctuary site, and exploring the implications of the various alternatives raised in their discussion.

Cabinet Office

12 June 1980

CONFIDENTIAL