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27

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PRIME MINISTER

GAS PRIVATISATION

I enclose a letter which I have now received from John Moore, in response to the draft paper I gave him on 28 February. John lists five main elements to his approach. The first three just do not affect the main task of tackling a nationalised monopoly. Allowing gas exports is a question we can look at on its merits, irrespective of what happens to BGC. The proposal to privatise BGC North Sea and Irish Sea gas activities is in no way central to the issue and does nothing for competition - indeed would perforce reduce it. John's third point - privatising appliances retailing - is already proposed in my paper but is of limited significance, representing but a minute percentage of the value of the corporation. John's fourth element is the proposal to privatise the gas retailing monopoly. This is the part of the industry which would most require a regulatory regime. His fifth element suggests that the pipeline network should be accepted as a natural monopoly and run as a common carrier - apparently remaining in the public sector. Under this we would get a private monopoly requiring regulatory machinery and a residual nationalised industry. If you put the two together in the private sector you are essentially back to my proposal.

The political and administrative effort and the industrial problems in John Moore's approach would be much greater. We would have to let the coal industry return to normal before notifying anything resembling his proposals to those working in

SECRET AND PERSONAL





SECRET AND PERSONAL

the gas industry. The consultations would be extensive and the legislation complex and lengthy. Certainly no vesting day would be reached in the lifetime of this Parliament.

Perhaps when you have had time to reflect we could have a discussion with Nigel Lawson.

A handwritten signature in blue ink, appearing to be 'D. G. L. L.', written in a cursive style.

SECRETARY OF STATE FOR ENERGY

13 April 1984

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NUMBER 3 OF FOUR COPIES

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Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Peter Walker MBE MP  
Secretary of State for Energy  
Thames House South  
Millbank  
LONDON SW1P 4QJ

4 April 1984

*Dear Peter.*

COMPETITION AND PRIVATISATION: ENERGY INDUSTRIES

We have now had two discussions about your proposals for the privatisation of BGC. We agreed it would be useful if I set down my broad reactions.

I have considered your proposal very carefully and have, of course, discussed it with Nigel. Let me start by saying that I thought your paper was very well presented. My concern about the substance can be best expressed by saying that your proposal is, in essence, a British Telecom approach to BGC privatisation, without Mercury. As such it rests very uneasily with our commitment to increasing competition as part of our policy of privatisation and I have grave doubts about it on both economic and political grounds.

On the economic side, we were able to argue with Telecom that the company was in high technology and in an expanding sector of the economy. As a result there was scope for competition to emerge. BGC, on the other hand, is a mature company supplying a commodity with an uncertain future. These points are, of course, brought out in paragraph 6 of your paper. It is hard to expect competition emerging for BGC.

My concern on the political side is linked to this. We have just about got away with Telecom. It has been far from easy. Another privatisation on the same lines - with even flimsier economic justification - will attract even greater criticism and could well alienate public sympathy for the entire privatisation programme.

I do acknowledge that your proposal has its attractions. Proper regulation would probably be better than interference by civil servants. BGC would be moved into the private sector. But I do not think these gains are enough to justify creating a private sector monopoly.

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Against this background, I start from the view that we must bring competition into BGC at all levels. This can only be done by breaking up BGC on a functional basis. I appreciate that this will take longer but it is the only approach which is consistent with our policy of promoting competition as well as privatisation. In broad terms I would see the main elements of this approach as:

- a. allowing the export of gas from the UKCS;
- b. privatising BGC's gas exploration and production and storage;
- c. privatising BGC's appliance retailing and servicing business. This follows E Committee's decisions before the Election - E(83)1st and E(81)21st;
- d. privatising BGC's gas retailing business;
- e. accepting the pipeline network as a remaining natural monopoly, but run as a common carrier.

In the end our approaches reflect different political as well as economic judgements. I think the best way forward would be to discuss the matter at a small meeting of the sort you have suggested with the Prime Minister and Nigel Lawson.

*mt*

*Lawson*

*John Moore*

JOHN MOORE