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Prime Minister

LEGISLATIVE PROGRAMME 1981-82

I have seen the Home Secretary's paper, C(81)22 of 6 May, about next session's legislative programme. It may be helpful if I set out more fully why I believe it essential that the Gas (Industrial and Commercial Supplies) Bill should be included.

Broadly, the Bill I propose would do two things. First, it would remove the statutory privileges enjoyed by BGC on gas purchase and supply which in practice had the effect of preventing anyone from buying, supplying or using natural gas as an industrial fuel except through BGC or with BGC's agreement. Second, it would introduce the measures necessary to make private sector participation a practical possibility, in particular by providing access to BGC's transmission network.

The effect of these changes would be to expose BGC to private sector disciplines for the first time on the major part of their business. We are still examining the detailed practical implications of the proposed Bill, but I believe that there would be benefits from the changes I am proposing both in offshore activities and in the industrial gas market.

With the exception of activity associated with the gas gathering pipeline, interest in offshore gas has languished for some years. The Seventh Licensing Round failed to indicate any marked upturn. The oil industry argue that the main reason for this is the control ~~by~~ BGC exercise, using their virtual monopoly power, over the timing of gas developments and in particular the price paid to producers. Producers argue they do not have the incentive they require to explore and develop gas with the prices BGC are currently proposing to offer.

Breaking BGC's monopsony should encourage increased development of gas fields and increase the amount of gas available. This would benefit industry as would the restructuring of the market which is likely to follow once BGC's rigid marketing policy is faced with competition. The bulk users in particular should be helped and the proposed Bill could be presented as part of our strategy for supporting our manufacturing industry.



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We have received representations from the Chemical Industries Association, BP and others about BGC's privileges, and a number of our back-benchers are pressing for changes in BGC's position. If the Bill is delayed beyond the next Session, we will come under increasing criticism from the suppliers and be accused of dragging our feet. We would do better in my view to take the initiative and introduce the Bill as soon as we can.

I am copying this minute to the members of the Cabinet and Sir Robert Armstrong.

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SECRETARY OF STATE FOR ENERGY

12 May 1981