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25 February 1985

PRIME MINISTER

PUBLIC EXPENDITURE SURVEY: GAS PRICES

The Treasury's answer to many public expenditure problems at the moment is to put prices up. Whether it's water or gas, prescription charges or dental charges, the message is the same. We cannot control the costs, so we will make the customer pay more.

This should be very much a second best solution. It is unpopular, and many see little difference between a tax increase and a monopoly charge increase.

In the case of the gas industry, we would be much better advised to push ahead with gas privatisation. There are substantial sums of money to raise from selling the gas reserves of BGC - perhaps as much as £2 billion - to say nothing of the improvement in customer service that could come from selling off the retail outlets. We could move towards a more competitive gas market, where prices were no longer the worry of government departments but were established by the market and would fluctuate like oil prices. Then there would be the right signals to produce more or to sell less, depending on the state of the market. If it is politically impossible to move ahead with gas privatisation and the establishment of competition, then

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reluctantly we would agree with the Treasury that you should try and push the prices up a bit. But it is very much a second best option, and we would urge you instead to fight the important battle on gas privatisation. This should be brought to E(A) immediately.

A handwritten signature in blue ink, appearing to read 'John Redwood', with a stylized flourish at the end.

JOHN REDWOOD

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