

SUBJECT
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NOTE FOR THE RECORD

c.c. John Redwood

PRIVATISATION OF BGC

Mr. Walker came to see the Prime Minister yesterday to discuss his ideas on the privatisation of BGC and the way in which this work should be handled. Working with a very limited group of officials, he and his Ministers had produced a major study on the possibilities for privatising the gas industry. They had looked at a number of alternative structures and at the regulatory systems in a number of other countries. He had concluded that the scope for increasing competition in the gas industry was limited. Nevertheless, to put BGC into the private sector under a regulatory system would represent a major improvement on the present structure.

He had given a copy of the study to John Redwood and would be giving another to John Moore. He was inviting both to talk to him about it. He said he was totally committed to the policy of denationalisation and pointed out that he had more experience in the control of nationalised industries than any other of his Ministerial colleagues. In his view, the solutions being considered by the Treasury and the Policy Unit were too purist and did not take sufficient account of economic and political realities. He pointed out that at present there were 750,000 customers, mainly in the South West and North West, who were being supplied at a common price and at a loss. There would be a danger that their supplies would be discontinued in a freely competitive regime.

Mr. Walker said the exercise needed to be handled with great care. Denationalising gas would be a major prize for the Government but represented a major hazard if it went wrong. He was determined that divisions in the Cabinet should not be allowed to surface in public. He wished, therefore, to reach an agreed solution which could be put to colleagues generally. He left the Prime Minister a copy of the study

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and emphasised the need to restrict access to it.

He observed that in the long run gas was likely to be a declining industry. The era of cheap gas supplies was coming to an end. Gas had been cheaper than electricity but the gap was closing, and if nuclear generation were successful the differential could move the other way.

The Prime Minister endorsed Mr. Walker's wish to achieve an agreed solution with colleagues most closely concerned. She offered to hold a meeting of a small group of Ministers if this would prove helpful.

AT

24 February 1984