

Prime Minister ^①
 Agree & arrange a
 discussion with Treasury
 and Energy?
 MR TURNBULL

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Yes - but 17 April 1984
 I shall need a
 preliminary "interim"
 on the main
 issues
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GAS PRIVATISATION

The debate between John Moore and Peter Walker has taken an inordinately long time, and seems to have achieved very little. The arguments are no further advanced than when we discussed the matter with Peter and his officials on 24th and 27th February.

John Moore's Five Points

Allowing the export of gas from the United Kingdom would be one part of a programme to develop a genuine market in gas between the producers at the wellhead, the distributors of gas and the final customers. It might even be a question Peter Walker and John Moore could agree on. Peter Walker is wrong to suggest that the issue can be entirely divorced from the question of introducing competition into a large monopoly. You need an international market to fix a market price for gas.

Peter Walker is right that privatising BGC's gas exploration, production and storage does not increase the number of participants nor strengthen competition. However, sale of the gas production and exploration activities as a separate business would reduce some of the BGC's monopoly power which comes from having a stranglehold on some gas from North Sea to final customer, and would be the next stepping stone in the policy so far followed of selling the oil interests.

But this is a
 pretty trivial
 question by
 comparison with
 main business

John Moore and Peter Walker almost agree on the desirability of denationalising appliance retailing. The only disagreement between them is whether you can sell 100 per cent or a significant majority. We favour selling 100 per cent, and do not believe the difficulties are that great.

Peter Walker is right in saying that if the gas retail monopoly was sold separately, it would need a regulatory regime; and that there would be some merit in lumping it together with the pipeline network and selling the two in one go. Regulation, of course, is needed whether it is publicly or privately owned.

Conclusion

Yet to be
 arranged

1. There has been too much delay and prevarication. The issues between the Treasury and Department of Energy now have to be put to your meeting. Peter Walker should be asked to bring forward his options paper, and the Treasury to bring forward any commentary upon it. We gave Department of Energy extensive comment on

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their paper within 2 days of receiving it in February.

2. The Treasury and Department of Energy positions are not as far apart as they first appear. There is a certain animus in the debate which goes deeper than the apparent issues. It needs cooling down.
3. The exchange of letters makes no comment on regulation. The first step of creating a proper market in gas to fix a market price for the basic raw material goes a long way to limiting monopoly. There then needs to be a regulatory check on the costs of distribution. We have written at some length before on why we favour a simple customer price-based system rather than the complex profit system in Peter Walker's original paper. We should ask that the options paper should include both regulatory models set out in a comprehensible way.

It is important to make decisions soon, otherwise the slot in the legislative programme will be wasted.



JOHN REDWOOD

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