

SUBJECT

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See VC(AAI)

CC Master.

by John Redwood.

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RECORD OF A MEETING HELD ON 10 MAY 1984 AT 1830 HOURS TO  
DISCUSS GAS PRIVATISATION.

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Present:

Prime Minister  
Secretary of State for Energy  
Chancellor of the Exchequer  
Economic Secretary  
Mr. Redwood

The Secretary of State for Energy said he had undertaken a substantial study of how the gas industry might be privatised, involving an extensive comparison with the structure of the gas industry in other countries. He had concluded that there was little scope for increasing competition in the supply of gas to consumers. In any area there could only be one network. Even if the gas industry were broken up, it would still constitute a local monopoly. The creation of a common carrier network would not allow greatly increased competition. An attempt to break up the gas industry into parts would be very complex and would be totally dependent upon the cooperation of BGC's management and staff, which was unlikely to be forthcoming. Even if this could be achieved it was doubtful whether the separate gas business would be attractive to investors.

He had therefore come to the conclusion that the best approach was to privatise the whole of the existing business as one entity, with the exception of appliance retailing which could be run as a joint venture with the private sector. This entity would be subject to appropriate regulation. This would stand the best chance of securing the support of management and unions and customers.

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The Chancellor and the Economic Secretary had strong reservations about these proposals which they felt would do little to increase competition. The Government had been severely criticised in the case of BT for doing no more than creating a private sector monopoly. They argued that several different parts of the gas industry could be identified - gas exploration and expenditure, gas storage, the distribution network, customer servicing, and appliance retailing. For all except the distribution network there were good prospects for privatisation and increasing competition. Dividing up the industry would eliminate the scope for cross subsidisation. Such an approach could be completed under existing legislation plus a limited addition to the Nationalised Industries Bill.

The Secretary of State for Energy questioned whether removing large parts of the up-stream and down-stream business could be achieved without antagonising management and unions. Selling off the up-stream business would not add to competition - there was already substantial competition in the field of exploration and production. He doubted whether the public would welcome being required to turn to the private sector for servicing. Concern for safety was very strong. The Government had retreated from earlier proposals of this kind and would probably do so again in the face of opposition. The appliance showrooms were losing money and were largely attractive because of the underlying property values. In many areas of the country the private sector investors would not be interested in operating the showrooms. The only way an approach of this kind could be made to work would be to sell up-stream and down-stream assets to the private sector while allowing BGC to retain a minority stake.

Summing up, the Prime Minister invited the Secretary of State for Energy to prepare a paper comparing different

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approaches. It should compare the option of selling the existing business largely as one under a regulatory regime, with dividing up the business and either selling or seeking private sector participation in the constituent parts other than the distribution network. The same group should meet again when this paper was available.

BT

10 May 1984

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10 DOWNING STREET

From the Private Secretary

10 May 1984

GAS PRIVATISATION

The Prime Minister held a meeting today to discuss gas privatisation. Present were your Secretary of State, the Chancellor of the Exchequer, the Economic Secretary and Mr. Redwood.

BF |

In the course of the discussion, the pros and cons of different approaches to privatisation were considered. The Prime Minister invited your Secretary of State to prepare a paper comparing these different approaches. It should compare the option of selling the existing business largely as one, under a regulatory regime, with dividing the business up and either selling or seeking private sector participation in the constituent parts other than the distribution network. When this was available the same group would meet again to discuss it.

I am copying this letter to David Peretz (HM Treasury) and Andrew Hudson (Economic Secretary's Office).

(Andrew Turnbull)

Michael Reidy, Esq.,  
Department of Energy.

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