

cc **SUBJECT**
Master.



File 12
bc D. Pascoe
✓ Mr Gregson

10 DOWNING STREET

From the Private Secretary

15 June 1984

Gas Industry Privatisation

The Prime Minister held a meeting yesterday with your Secretary of State and the Chancellor of the Exchequer to discuss gas industry privatisation. Mr. Redwood was also present.

The Prime Minister said she had serious reservations about privatising BGC as one entity. This would lead to criticism that the Government was creating a private sector monopoly and it was doubtful whether this would achieve the necessary improvements in efficiency. She asked how much could be achieved by selling or injecting private capital into up-stream and down-stream parts of the industry, leaving the distribution network in the public sector for the time being.

Your Secretary of State said that if this exercise were to be carried out successfully it would be necessary to carry management and unions within BGC and also the consuming public. On appliances, BGC already had a programme for disposing of loss making outlets and for improving the performance of the rest. It would be possible to increase the speed of disposals but he doubted whether outright sale of all the showrooms would be acceptable to public opinion. The chief attraction to a buyer of the showrooms would be in the underlying property and this could lead to a large number of outlets being closed without being replaced. In the paper attached to his minute of 11 June, he had set out a number of other options. In his view, the most promising was for BGC to go into joint ventures with High Street retailers whose premises could provide a service for payment of bills, appliance sales and installation. He did not think it was necessary to look for a single comprehensive solution; BGC could go for different partners in different parts of the country and the nature of the joint venture could also vary.

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On servicing, he said it was vital to satisfy the public that there would be national emergency cover and adequate safety standards. Without this there would be strong opposition to the Government's plans. He doubted whether, if BGC withdrew from servicing, the private sector would be keen to fill the vacuum. With around 30,000 BGC employees in this sector, the cost in redundancy payments could also be very high.

The Chancellor was more optimistic that the private sector would come in. Private contractors had a large part of the market in the installation and servicing of central heating and provided adequate servicing for other appliances and utilities. In discussion, it was agreed that BGC should be asked to look into ways in which servicing could be included in the package provided in partnership with the private sector.

The discussion then turned to BGC's gas exploration and production interests. Your Secretary of State said that the Deloitte, Haskins and Sells Report had concluded that it was advantageous for BGC to have an interest in gas exploration and production as this provided it with insight into the state of gas reserves and the problems of gas production. It was argued that while BGC would resist fiercely total divestment of its gas interests, as had been done with its oil interests, it was not necessary for BGC to retain the current size of stake in order to maintain a foothold in the up-stream sector. Your Secretary of State said it would be necessary to counter the argument that gas consumers had helped to finance BGC's gas interests and that if these were sold consumers would then be paying to acquire gas from the resources which they had helped finance. The Chancellor doubted whether the price to consumers would be affected as there would be offsetting adjustments to BGC's financial targets.

Summing up the discussion, the Prime Minister invited your Secretary of State to speak to Sir Denis Rooke and to develop proposals under which BGC would establish joint ventures with the private sector to provide a service for the payment of bills, and for the sale, installation and servicing of appliances. Arrangements would have to be developed to provide adequate safety standards and emergency cover. Your Secretary of State should also ask BGC to prepare plans for the disposal of its gas interests, with BGC retaining a minority stake. Your Secretary of State should also examine to what extent existing legislative powers were sufficient to put into effect these proposals and to what extent new legislation would be needed. He should also consider the implications for the rest of the Government's legislative programme. The Prime Minister asked your Secretary of State to report back to the same group in

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about a month.

I am sending a copy of this letter to David Peretz (HM Treasury).

Andrew Turnbull

Michael Reidy Esq
Department of Energy

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