

PRIME MINISTER

24 April 1985

BGC PRIVATISATION

The E(A) meeting must ensure that a tight timetable is set which will work. Some other planned legislation for 1985/6 will have to be sacrificed: we have briefed on this separately. (In E(NI) folder.)

There are 3 principal objectives for BGC privatisation:

1. Exposing a fat public-sector monopoly to the rigours of competitive pressure and commercial discipline, and thereby offering a better deal to customers.
2. Another BT-scale step towards a share-owning democracy, with a high level of employee participation.
3. The money from flotation.

*Should emphasize  
be on competition  
which will come  
only from the  
fields or on meeting a  
tough regulatory  
formula.*

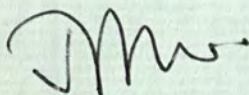
There are some choices to be made in emphasis between these objectives. Backing gas consumers by exposing BGC to a tough pricing formula will reduce the proceeds from the sale. BGC is a mature business with limited growth prospects in its current areas of activity. It lacks the technological glamour of BT - a difficult act to follow. The more rigorous the commercial disciplines on BGC, the lower the price will have to be pitched to capture the enthusiasm of the man in the street.



Conclusions

We favour holding firm to our original aims, backing gas consumers, and inducing efficiency and business acumen by exposing BGC to a tough commercial environment. Given a privatised BGC, we would support the Treasury's proposal to lift Government controls on gas exports from the UKCS. In practice, little, if any, gas is likely to be sold into the over-supplied continental gas markets, but BGC will be persuaded to pay realistic prices to producers which will stimulate UK exploration and production further.

The regulatory regime should not give BGC a free hand to pass all increases of gas supply costs directly through to consumers. Supplying a markedly seasonal pattern of demand is becoming increasingly expensive as gas supply costs rise. Normal market disciplines would require BGC to reorientate its marketing/pricing policy, look for cost-effective storage and, above all, be uncompromising in searching for the cheapest sources of supply.

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