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PRIME MINISTER

GAS PRIVATISATION

I have seen Peter Walker's minute to you of 22 November. I am afraid that I cannot agree that his proposals provide an acceptable package, either in substance or in presentational terms.

with DN?

2 I am frankly disappointed at Peter Walker's response to the clear views expressed by colleagues at E(A) on 14 November, which he and I explored further with John Moore on 21 November. The additional proposals he has now made go nowhere near meeting the concerns that John Moore and I put to him on both occasions; indeed they fall short of the limited moves that we had understood him to be contemplating after the 21 November meeting (that an appropriate set of assurances should be enshrined as conditions of the licence).

3 I am very much in agreement with the general line of John Moore's reservations about the regulatory regime for gas, as recorded in the E(A) minutes and reflected in your summing up of the meeting. We have to remember that we are creating a regime that must cope not just with the recently-privatised British Gas under largely the same management and market background as its public sector antecedent: it must deal with a gas supplier some years on, under a different and differently-motivated management, possibly against a very different market background, where abuse of the gas supply monopoly is a real possibility.

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4 Peter has not advanced arguments which persuade me that our worries at E(A) were anything but entirely well-placed. In particular - and that is I think the critical point for the Bill, as opposed to the licence - I still strongly favour the Director General of Gas Supplies having a power to propose modifications to the licence with respect to the contract market. I do not think Peter's fears about undue interference are justified; nor can he reasonably defend keeping the Director General out by expressing concern that he may, in effect, be ready to do his job.

5 I still think that with goodwill we can sort this out in time to get the Bill launched reasonably to timetable. I shall certainly do what I can to that end.

6 I am sending copies of this minute to Peter Walker, John Moore and E(A) colleagues, and to Sir Robert Armstrong.

L. B.

L B
25 November 1985

Department of Trade and Industry

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