P.0647

PRIME MINISTER

Monopolies and Mergers Commission: Nationalised Industries
(E(NI)(82)1

BACKGROUND

The Committee decided in November that up to six nationalised industries a year should be referred to the Monopolies and Mergers Commission (MMC); and that there should be a four year rolling programme of references, with the programme for the first year announced publicly (E(NI)(81) 2nd Meeting, Item 2).

2. The Official Committee on Nationalised Industry Policy (NIP) has prepared a draft programme of references for the four years 1982 to 1985. It is set out in the Annex to the note by the Chairman of NIP attached to the Chief Secretary's note.

3. The Chief Secretary invites the Sub-Committee:

i. to decide questions on individual references which officials have not been able to resolve; and

ii. to decide whether the whole four year programme should be announced publicly, or only the first year as E(NI) has already decided.

MAIN ISSUES

Should the whole programme be published?

4. Publishing the full programme of references, on a provisional basis, might help to demonstrate that MMC references are to be seen as a routine way of checking on the industries' efficiency rather than a punitive measure; and should help to demonstrate the Government's commitment to investigate and improve nationalised industry efficiency. On the other hand some Ministers may feel that, once a programme had been announced, however provisionally, it could be embarrassing to alter it.

5. If the Sub-Committee decides in favour of publishing a four year programme Departments will probably need to look again at the provisional programme annexed to E(NI)(82)1 in order to check that there is no reason why its individual constituents should not become public knowledge.

6. If the Sub-Committee decides that only the first year's programme of references should be published there would nonetheless be advantage in Departments being able to tell individual industries more than twelve months in advance that it is the Government's intention to refer them to the MMC.

Specific Proposals: 1982 Programme

Post Office and British Telecommunications

7. The MMC reported on the inner London letter post in 1980. In NIP the Department of Trade have proposed, with general support, that the Commission should now be asked to look at postal services outside London. Department of Industry officials have opposed such a reference largely on the grounds that it is too early for the Commission to judge how effectively the Post Office have put into practice its 1980 recommendations, which have implications outside London. The Sub-Committee will wish to consider how much weight to give to that argument. On the face of it the Post Office ought by mid-1982 to have made considerable progress towards implementing the MMC's 1980 recommendations. If it has not, all the more reason for the Commission to keep up the pressure on Post Office management.

8. The Secretary of State for Industry may suggest that the MMC should instead study Post Office counter services; but there appears to be some risk of overlap both with a Post Office management study and with a Rayner study into the counter services which the Post Office provides on behalf of the Department of National Savings.

9. A third possibility would be for the Commission to look at British Telecom during the first half of this year. If the Secretary of State for Trade suggests this, the question for the Sub-Committee will be whether it is reasonable for the MMC to look so soon at the new corporation. If not, there will be a reference in March 1983, as the provisional programme prepared by officials suggests.

British Gas Corporation

10. It is agreed that there should be an early study of the British Gas Corporation (BGC). At issue is whether the MMC or management consultants should carry it out.

11. The main arguments for entrusting the study to the MMC appear to be that if references to the Commission are indeed the main aspect of the Government's efforts to improve the scrutiny of nationalised industry efficiency the Commission should be allowed to have an early crack at such a major corporation as BGC; and that the Commission's report would be seen as impartial and objective. The main argument for using management consultants, which the Secretary of State for Energy would prefer, is that BGC needs very soon to identify how it should modify its organisation and the way it operates in response to the changes which the Oil and Gas (Enterprise) Bill now before Parliament will bring; and that consultants would be much better equipped to produce a forward looking study of that kind than would the Commission, whose reports typically analyse matters as they are at present. The Corporation itself would welcome and jointly commission a study by management consultants: an investigation by the MMC, in contrast, would probably worsen working relations between the Government and the industry.

12. The Secretary of State for Trade may well be prepared to agree that management consultants should examine the BGC provided that their report is published and that it is agreed that the MMC should look at the Gas Corporation in the future: the Annex attached to E(NI)(82)1 suggests late 1985 as a possible date for a reference. If it does not investigate BGC this year the MMC will look instead at one or two of the area electricity boards.

Coal

13. It has been provisionally agreed that the National Coal Board (NCB) should be one of the first industries referred to the MMC this year; but Ministers have been concerned that the reference should not worsen industrial relations in the coal industry. In his letter of 26 January to the Minister for Consumer Affairs, the Parliamentary Under Secretary of State at the Department of Energy (Mr John Moore) proposes that the Government should announce its intention to refer the NCB to

the MMC in the latter half of this week; and should formally refer the Board to the Commission shortly afterwards. I understand that the Department of Trade Ministers are content with this proposal; they may indeed already have replied to Mr Moore's letter before E(NI) meets.

Later Years

14. If the Sub-Committee decides that the Government should only publish one year's proposed references at a time it would be possible to postpone decisions on specific references proposed beyond the end of 1982. The Sub-Committee could agree to look at the points at issue in six months' time when it will need to decide what references are to be announced for the first six months of 1983. But it would assist in reaching agreement among Departments about the likely pattern of references in future years if Ministers showed that they were sufficiently committed to the rolling four year programme to settle the issues about references after 1982 which the Chairman of NIP's note mentions. Sponsor Departments are often very reluctant to see "their" industries listed.

3 4

British Shipbuilders and British Steel Corporation

15. In NIP it has been suggested that these industries might be referred to the Commission in mid-1983 and mid-1984 respectively. In both cases the question is whether an investigation by the MMC would increase the pressure on the industries to reduce losses and increase efficiency. It may be that there is a stronger case for a Commission investigation into British Shipbuilders than into the British Steel Corporation. As discussion of the other item on the Sub-Committee's agenda will probably show it is by no means clear that British Shipbuilders are making realistic assumptions about the future prospects for their industry.

HANDLING

16. You will want the Sub-Committee to discuss separately:

a. whether the whole programme or only the first year should be announced publicly;

b. the 1982 programme;

c. the later years.

17. The Chief Secretary, Treasury will wish to introduce his memorandum and will no doubt reaffirm his support for announcing the full four year programme on a provisional basis. Most other members of the Sub-Committee will probably have a view on that question.

18. On the 1982 programme the Secretary of State for Industry will want to comment on the proposed reference of the Post Office or British Telecom; and the Secretary of State for Energy on the British Gas Corporation, and if necessary, the National Coal Board. The Secretary of State for Trade and the Chief Secretary will probably want to comment on both, or all three, cases.

19. The Secretary of State for Industry, the Secretary of State for Trade and the Chief Secretary will also wish to comment on the proposed reference of British Shipbuilders and the British Steel Corporation in later years.

CONCLUSIONS

20. You will want to record the Sub-Committee's conclusions on:

a. whether the Government should publish a one year programme of references or a provisional four year programme;

b. the proposed reference of:

i. the Post Office/British Telecom;

ii. British Gas Corporation;

iii. (if necessary) the National Coal Board;

iv. British Shipbuilders;

v. the British Steel Corporation.

21. On (a), if the Sub-Committee decides that planned references should be announced only one year ahead it will probably want to authorise sponsor Ministers to give longer notice of planned references to the industries concerned.

22. It would be for the Secretary of State for Trade to announce the programme of references. He will need to agree the terms of his announcement with other members of the Sub-Committee.

23. The Chief Secretary could be asked to arrange for any further inter-departmental discussion at official level.

PLG

P L GREGSON

9 February 1982

DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

Nat Ind

Prime Minister (4) cc J.V.

MCS 13/5

From the Secretary of State

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SWI

13 May 1982

MT

Dear Geoffrey,

You may recall that during the Commons debate on 30 November 1981 on the Public Accounts Committee report on the Comptroller and Auditor General, Nicholas Ridley stated that the membership and staffing of the Monopolies and Mergers Commission would be strengthened to deal with the increased workload which would flow from the expanded programme of nationalised industry references agreed by E(NI). The new programme was announced on 3 March by John Biffen.

MMC members are appointed on the basis that they devote on average one and a half days a week to the Commission; their comparatively low pay (£5421 a year) both reflects this and puts the Government in no position to ask members to volunteer unpaid extra time. In practice each nationalised industry enquiry tends to make significantly higher demands than one and a half days a week on the six members of the investigatory team involved and there will be up to three such teams to be manned at any time. That leaves too small a pool from which to select balanced teams for other references involving mergers, monopolies, anti-competitive practices and general competition issues.

I therefore propose to make a Statutory Instrument, subject to negative resolution, which will allow the maximum number of regular members of the Commission to be increased to 32 from the present ceiling of 27. The extra membership will provide the

From the Secretary of State

Chairman with the capacity to handle at any time either an extra nationalised industry enquiry or a merger and monopoly reference. In the same spirit, I already have in hand the appointment to the MMC of 2 new members (which would bring the membership to its current statutory maximum).

The financial aspect has already been put to Treasury officials and no objection has been raised.

I am copying this to members of E(NI), the Lord Privy Seal, Sir Robert Armstrong and Mr Sparrow (CPRS).

Yours,

Arthur

LORD COCKFIELD

3 MAY 1982

CONFIDENTIAL

PA

Prime Minister

(1)

A somewhat contradictory letter. Unless you would prefer me to reply underlining the importance you attach to this work, it might be best not to reply at all. Agree?

MCS 10/5

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
01-211 6402

Michael Scholar Esq
10 Downing Street
London SW1

7 May 1982

Dear Michael,

CPRS STUDY OF STATE MONOPOLIES

My Secretary of State has seen the correspondence following Mr Ibbs' minute of 29 March to the Prime Minister about the CPRS study of how to reduce the power of state monopolies. This study concerns one of the most important components of the Government's economic and political strategy and Mr Lawson has asked me to say that he wholeheartedly supports it. He welcomes the choice of coal and electricity as two of the areas for particular focus.

He has said that it is clearly necessary to devote sufficient departmental resources to ensure effective work on this important issue. At the same time, a number of other extra demands are currently being made on those same resources. In the case of this Department, these include matters such as the CPRS-led in-depth study of electricity pricing; the Cabinet Office review of our ability to withstand strikes in the key areas of electricity, gas and oil distribution; the MMC investigation of the NCB which will entail considerable follow-up work here; and the E&AD's selection of Coal Division here for their first exercise in reviewing Departments' sponsorship of nationalised industries which the Government invited them to undertake in its response to the PAC's Report on the Role of the Comptroller and Auditor General.

Such externally initiated reviews are in addition to the continuing normal sponsorship work for the energy industries, which is central to the Government's control of the public trading sector and which it wishes to improve in the light of its decisions on the CPRS report on relationships with the nationalised industries.

This Department has been able to strengthen its sponsor Divisions with some additional businessmen. Even so, the resources available will remain hard-pressed to cope with the variety of tasks outlined above. Given this cumulative demand, Mr Lawson believes it to be of the first importance that further work on the CPRS report on relationships with the nationalised industries is confined to the essentials. The decisions about nationalised industry objectives at E(NI) on 21 April were consistent with this and Mr Lawson hopes that the same approach will be adopted towards the rest of the CPRS report. He has asked me to say that the Government's ability to bring about real improvements in this troublesome area will depend on intensive and continuing attention by officials to the most important issues and this should not be prejudiced by dissipating their efforts too widely.

I am copying this letter to the private secretaries to other members of E(NI), Jim Buckley, David Wright and Gerry Spence.

Yours ever,

John

J D WEST
Private Secretary

MR. SCHOLAR

cc: Mr. Walters

CPRS STUDY OF STATE MONOPOLIES:
COAL AND ELECTRICITY

Although I think we should be sympathetic to the point made in the letter of 7 May from Mr. Lawson's Office, that the resources of their sponsor divisions are fully stretched by all the work now in hand on the nationalised industries, I do not think we can let his conclusions stand. It really is not good enough for sponsor Departments to imply that because they are so pre-occupied with current business, they do not have time to work out where they ought to be going.

Mr. Lawson suggests that the CPRS report be "confined to the essentials", and that is sufficiently vague as to be acceptable; but the decisions to which he refers of E(NI) on 21 April on nationalised industry objectives were rather far-reaching - the Chancellor, in his note to the Prime Minister reporting the outcome of that meeting, made it clear that these objectives would be commercial, political and social, and that they would provide a broad strategy within which corporate plans would be prepared. The CPRS check-list of objectives was not to be regarded as exhaustive. Mr. Lawson goes on to say that "real improvements " will be achieved by concentrating on the most important issues, and might be prejudiced by dissipating his Department's efforts: that comes close to saying that the handling of issues would be prejudiced by the establishment of proper objectives.

I suggest that we might wait and see how the Treasury and the CPRS respond to this letter before replying; then, if the Prime Minister agrees, you could simply reply in general terms stressing the importance she attaches to this exercise and to the other work on nationalised industries taking place under the aegis of E(NI).

J.V.

10 May 1982

NBPM
MUS 6/5

CABINET OFFICE

Central Policy Review Staff

With the compliments of
John Sparrow

GERRY SPENCE

70 Whitehall, London SW1A 2AS
Telephone 01-233 7765

cc JV

CABINET OFFICE
Central Policy Review Staff
70 Whitehall, London SW1A 2AS Telephone 01-233 7765

CONFIDENTIAL

Qa 05911

6 May 1982

Dear Martin,

State Monopolies Study

Thank you for your letter dated 29 April to Mr Sparrow agreeing to inclusion of the water industry in the CPRS study on State Monopolies.

CPRS staff have already made contact with officials in the Department of Environment, and have learnt of the legislative proposals to create smaller boards for regional water authorities and to abolish the National Water Council. This first proposal is in line with recommendations in last summer's CPRS report on Government/nationalised industries relations. It was suggested then that the management of national industries is likely to be more effective with smaller boards, comprising 7 to 10 members, and well chosen non-executives who are in a majority. On the second proposal, we are aware that the National Water Council has not been very effective in negotiating wage rates, and since centralised pay bargaining is the main function of the NWC, we agree that there appears to be a strong case for its abolition.

We are grateful for the comments in the third point in paragraph 3 of your letter, and agree that the inefficiencies noted by the MMC on Severn-Trent may not stem solely from its monopoly position. However it is possible that these problems could have been eliminated earlier if the authority had been subject to market forces and had not been able to pass on the financial effects of the inefficiencies by way of increased water charges.

We are aware of the efforts which have been made through the MMC, consultants' examinations and scrutinies by Ministers and officials to

Martin Brasher Esq
Department of the Environment
2 Marsham Street
SW1

reduce inefficiencies in water authorities and in private water companies. The point we were making in paragraph 13 of the annex to Mr Ibbs' letter of 26 March was that the present mechanism, whereby excessive profits are prevented in private water companies, may not be structured in such a way as to encourage efficiency.

Our state monopolies team will be discussing these points further with your officials, and will also want to review the initiatives being taken to encourage privately financed sewerage and sewage schemes and to promote privatisation.

I am copying this letter to the Private Secretaries of the other members of E(NI) and to David Wright.

Yours sincerely

G B Spence
Private Secretary

Not Sent (Phone)

Prime Minister (4)

MCS 5/5

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

30 April 1982

John Sparrow Esq
Central Policy Review Staff
Cabinet Office
70 Whitehall
London SW1A 2AS

cc JV

MS

Dear John,

STATE MONOPOLIES

Thank you for your letter of 20 April.

On the basis outlined in your letter I am content that the CPRS Study on State Monopolies should cover telecommunications.

I am copying this to the Prime Minister, other Members of E(NI) and to Sir Robert Armstrong.

Yours ever

Patrick

CONFIDENTIAL

DEPARTMENT OF THE ENVIRONMENT
2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

NBPM
MCS 30/4

MINISTER FOR LOCAL GOVERNMENT AND ENVIRONMENTAL SERVICES

cc JV

My Ref: H/PSO/12459/82

29 April 1982

Dear Mr Sparrow,

CPRS WORK ON STATE MONOPOLIES

Mr Ibbs' note of 26 March to the Prime Minister's Private Secretary invites comments on the work which the CPRS is now considering on the question of the power of state monopolies. This Department has a major interest since the water industry is one of the four proposed for detailed initial study.

We see no objection to the inclusion of the water industry in this study. Indeed, as the enclosure to Mr Ibbs' note suggests, it is in some respects a particularly suitable case study: the monopoly situation is very clear; the regional organisation of the industry is unique; and the water companies' involvement provides an instructive case study of one kind of alternative arrangement.

There are one or two points however which we would wish to make at the outset to avoid misunderstandings:

- First, as presently constituted water authorities have a majority of members appointed by local authorities although the Chairman of each authority is appointed by the Secretary of State. The Government reached the provisional view in 1980 that smaller boards modelled on the nationalised industries would be preferable and issued a consultation paper on the structure of water authorities. Responses to this, for which the closing date was 31 March, are now being examined.

- Secondly, the Government at the same time reached the view that the NWC should be abolished, but this conclusion also must remain confidential. This would have consequences for, among other things, wage bargaining in the industry, which is presently done centrally by the NWC. The level of wage settlements in the water industry is a matter for concern.

- Thirdly, although the monopoly position is clear, the problems listed in para 12 of the Annex to Mr Ibbs' note arise only in part (if at all in the case of items (b) to (e)) from the monopoly position. The list in this paragraph seems to rely mainly on the MMC report on Severn-Trent WA and not all water authorities have these problems. And the assertion in paragraph 13 that "the present system of regulation has not been established in a manner likely to encourage efficiency" seems to ignore the efforts that have been made over the last 2-3 years to improve matters, eg through the scrutiny by Ministers and officials of the Water Authority budgets aided by consultants' examinations, through the MMC enquiry into Severn-Trent Water Authority and the subsequent follow-up, and through the work that has been done to develop performance aims for the industry. These efforts are important if in fact nothing can be done to change the constitution of the industry for the time being.

While therefore much has already been done in the water industry, it is clearly useful to include them in the study and we will be very interested in any conclusions the CPRS may reach on the feasibility of privatisation of parts or the whole of the industry, an area in which we are interested in taking an initiative with a proposal for privately financed trunk sewerage and sewage treatment works on Merseyside.

/ I am copying this letter to the Private Secretaries of the other members of E(NI) and to Sir Robert Armstrong.

Yours Sincerely,

Martin Brasher

MARTIN BRASHER
Private Secretary

c/c JV
Prime Minister (2)

MCS 20/4

CABINET OFFICE
Central Policy Review Staff
70 Whitehall, London SW1A 2AS Telephone 01-233 7765
From: John Sparrow

Qa 05900

CONFIDENTIAL

20 April 1982

Dear Secretary of State,

State Monopolies

I have seen a copy of your minute of 13 April to the Prime Minister about the CPRS study on State Monopolies. I am glad that the CPRS is making a useful contribution to the preparation of the telecommunications legislation, and I fully understand (and share) your concern that your officials should not be diverted from their work on that legislation. However, I am sure that there need be no such diversion.

Given the remit to study means of reducing the power of State monopolies, including privatisation and regulation, the CPRS could not ignore BT as the largest test case currently being considered by Ministers. But fortunately, as you say, we are associated with the current work, and I am grateful for your agreement that we can have access to existing relevant material in your Department. We will draw on this material in the course of our study, and avoid making any significant extra demands on your officials' time, beyond talking to a few of the people directly involved before we seek to draw wider lessons for our report. I hope that on this basis you will be content that the study should go ahead and should cover telecommunications to this extent.

I am sending copies of this letter to the Prime Minister, other members of E(NI), and to Sir Robert Armstrong.

Yours sincerely,

John Sparrow

John Sparrow

The Rt Hon Patrick Jenkin MP
Department of Industry
ASHDOWN HOUSE
S W 1

CONFIDENTIAL

SP

CONFIDENTIAL

cc JV

Prime Minister (4)

MCS 19/4

PRIME MINISTER

STATE MONOPOLIES

I have seen Mr Ibbs' minute of 26 March and am generally content with the outline proposals.

I note that regional or local pay bargaining is contemplated as a substitute solution where monopoly power cannot be weakened. I am not opposed to this approach being studied, indeed I have a good deal of sympathy with it, but we should not assume in advance that it is necessarily the best solution in all circumstances. I feel that it would be best to look at this case by case against the circumstances of each industry.

I am copying this minute to the other Members of E(NI) and to Sir Robert Armstrong.

NT

N T
19 April 1982

CONFIDENTIAL

National Policy

JP

10 DOWNING STREET

From the Private Secretary

19 April 1982

Dear Jonathan,

STATE MONOPOLIES

The Prime Minister was grateful for your Secretary of State's minute of 13 April about the CPRS study of state monopolies.

The Prime Minister has commented that she hopes that the CPRS study will go ahead as planned, with its section on telecommunications. She has further commented that telephone charges are very high and that there should be no delay in the CPRS's work in this area.

I am sending copies of this letter to the Private Secretaries to members of E(NI) and to David Wright (Cabinet Office).

Yours sincerely,

Michael Scholar

Jonathan Spencer, Esq.,
Department of Industry.

Telephone charges are very high and I wish they should go ahead. We cannot wait any longer. MT

Prime Minister

To note. I have already recorded your agreement to the CPRS study outline. But I do not think what is said here is inconsistent with that; or that you need comment on this minute (it would be a different matter if John Sparrow couldn't progress because of difficulties with DoI).

(2)

cc JV

JU177

CONFIDENTIAL

PRIME MINISTER

STATE MONOPOLIES

Robin Ibbs sent me a copy of his minute of 26 March about a CPRS study of state monopolies.

2 While I have no doubt that a study along the lines proposed could be valuable, I am concerned that one of the industries proposed for study is telecommunications. My officials concerned with telecommunications are already extremely heavily pressed with work on the proposed legislation (which Ministers will be considering in E(TP)), and to divert a significant part of their efforts on to a study of the kind proposed by the CPRS could put the already tight legislative timetable seriously at risk. I do, of course, welcome the input the CPRS are making to the preparation of the telecommunications legislation; but in order to minimise duplication and waste of time I should prefer their input to continue to be made direct into the discussions on the legislation rather than via a separate study with its own timetable for conclusions and decisions.

MCS16/4

3 That said, I should naturally be entirely happy for the CPRS to draw on any existing material in my Department for any lessons it may hold of relevance to other state monopolies.

4 I am copying this minute to the other Members of E(NI) and to Sir Robert Armstrong.

PJ

P J

13 April 1982

Department of Industry

~~Mr Pattison~~ PA.
Mr Jenkin has now commented, & my views on his point about BT are at (ii) below & in the last para.
N. 14/4

CONFIDENTIAL

~~Mr Vereker o/r~~

On X, the PM was very keen that the CPRS should do this work. So I don't see much point in asking JS for his views at this stage.
MCS 8/4

MR. SCHOLAR

c.c. Mr. Hoskyns

State Monopolies

I am sorry that, because my first copy of Robin Ibbs' note to you of 26 March apparently went astray, the Policy Unit did not provide advice in time to be taken into account by the Prime Minister when she saw those papers. But you have been kind enough to hold up your reply to Robin Ibbs, and I offer the following thoughts about his note and enclosure, based on some discussion with the CPRS:-

(i) This was very much a valedictory recommendation by Robin Ibbs: there might be something to be said for asking John Sparrow for his views, before the Prime Minister commits him to a largish piece of work - and one which will add considerably to the proportion of CPRS time already devoted to nationalised industries.

(ii) At first sight, what Robin Ibbs proposed entails considerable duplication with work going on elsewhere. But I think what the CPRS intend, and perhaps your reply might reinforce this, is that the work on particular industries will not throw up recommendations about the handling of those industries (because this is already going on in E(NI), TP(O), MISC 69, MISC 72, etc.), but in order to learn lessons from particular categories of monopoly activity. Thus, for instance, electricity, water and gas will throw up issues relating to natural monopolies (i.e., those where initial capital costs of entering the industry are prohibitively high); and telecoms illustrates the way in which the regulatory regime can dilute monopoly power. But even so, a very substantial amount of work is being done specifically on the monopoly position of BT,

CONFIDENTIAL

/ and

and I doubt if the CPRS will need to do other than draw conclusions from it.

(iii) Robin Ibbs' reference to union power, in paragraph 2, which is expanded in his detailed annex, also seems to point towards duplication of the work being undertaken in Robert Wade-Gery's various covert groups, and certainly there is no point in encouraging the CPRS towards work on employment legislation as a means of curbing union power. But I think there is a useful area to be covered falling between the two, which is the extent to which industrial structure and pay bargaining mechanisms might be relevant to union power - Robin Ibbs touches on these in paragraph 6 of his annex.

In this context you should know that Sir Robert Armstrong will be minuting the Prime Minister later this month with the recommendations of Robert Wade-Gery's group on what further work should be done of a MISC 57 type. The likely order of preference will be electricity, gas, oil distribution, ports, and industrial gases: but that work will not of course extend to fundamental reappraisal of monopoly power.

In short, and given that the Prime Minister has already endorsed the principle of work on state monopolies, I think what Robin Ibbs proposes is sensible provided that it does not entail going over work which has already been done, and concentrates instead on drawing out general lessons from it.

7 April, 1982.

MJ

CONFIDENTIAL

cc Mr Vereker

10 DOWNING STREET

From the Private Secretary

MR SPARROW

The Prime Minister has seen Mr. Ibbs' minute of 26 March, to which was attached a programme outlining the further work envisaged on the CPRS study on state monopolies.

The Prime Minister is content with the study outline, and, subject to comments from colleagues, she wishes the CPRS to aim to produce their report on these lines for consideration by Ministers after the summer recess.

I am sending a copy of this minute to the Private Secretaries to the members of E(NI) and to David Wright (Cabinet Office).

M. C. SCHOLAR

7 April 1982

CONFIDENTIAL

Nat Ind Policy

CONFIDENTIAL

cc J.V.

(2)

Prime Minister

To note

MCS 8/4

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

STATE MONOPOLIES

with MCS

Robin Ibbs sent me a copy of his minute of 29 March about the work which the CPRS have in hand on how to reduce State Monopolies.

2. I welcome this study as one of the most important in the CPRS current work programme. The existence of monopoly power whether through market dominance or entrenched trade unionism in many of the largest nationalised industries is one of the main elements behind their continuing poor performance. There is a need to think hard and creatively about means of reducing monopoly and increasing competition, by privatisation where we can but by other means where we cannot. My officials will certainly want to give all the help they can in this work.

3. The CPRS study must be both comprehensive and thorough so that it can serve as a spring-board for more detailed consideration of particular industries and lead to a programme of action stretching well into the next Parliament. I am therefore glad that while the main focus will initially be on coal, water, electricity and telecommunications, the intention is also to look at gas, rail and ports which also have major elements of monopoly.

4. I am copying this minute to the other Members of E(NI) and to Sir Robert Armstrong.

(G.H.)

6 April 1982

(2)

Prime Minister

I'm will wish to be aware. I will put in the weekend box with any comment from the Policy Unit.

MCS 29/3

CONFIDENTIAL

Qa 05864

To: MR SCHOLAR

From: J R IBBS

26 March 1982

State Monopolies

1. As part of this year's work programme, the Prime Minister has asked the CPRS to consider how the power of the State Monopolies might be reduced. Before leaving the CPRS I should like to check that our work is proceeding on the right lines.

2. On the basis of some preliminary work and consultation, the attached programme outlines the further work envisaged. It includes reviewing how monopoly power has in practice been exploited, and how it could be curtailed through improved competition, privatisation, structural changes and regulatory pressure. It will also include further consideration of how union power, which is a central feature of the problem, might be constrained by any other means.

3. We propose to look in some detail initially at the impact such changes could have on four particular industries - coal and electricity, because these are key examples of the central problem; also water and telecommunications, are relevant for comparison, because the former has a different, less centralised, structure and in the latter the practical problems of privatisation, competition and regulation are already being intensively examined. The aim is not primarily to make detailed proposals relating to these specific industries, but to use them as the main test cases for a general analysis which should provide pointers for Ministerial decisions on a number of industries. For this purpose we shall need to go wider than these four industries and look also at the other large monopolies (gas, rail, posts), either less intensively in the first stage or in a second stage later in the year.

4. In considering specific industries we shall be very dependent on help from the Departments concerned and shall try not to add to their burden of work.

5. We shall not confine our enquiries to the United Kingdom and plan to study in some detail how other countries (USA, West Germany, France) restrain the monopoly power of relevant industries.

6. If the Prime Minister is content with the study outline, and subject to comments from the other members of E(NI), the CPRS will aim to produce a report for consideration by Ministers after the Summer Recess.

Agreed
MT

7. I am sending a copy of this minute and the attachment to the Private Secretaries to members of E(NI), and to Sir Robert Armstrong.

JR

Att

STATE MONOPOLIES

Object of Study

The CPRS has been asked by the Prime Minister to consider what steps can be taken to reduce the power of State monopolies to pass on the costs of high wage increases, low productivity and loss-making operations, either through increased prices or direct Government support.

2. All the nationalised industries are backed by the Government's credit and cannot be allowed to go bankrupt. Several of these industries are monopoly suppliers and some are monopoly purchasers (monopsonies). As a result, management and employees can exploit a degree of monopoly power, as compared with competing firms in the private sector. The market position varies, however, for each industry and in some cases for different parts of the industry.

3. The purpose of the study will be to evaluate changes which might be made either now or at some time in the future, aimed at reducing the exploitation of monopoly power by the nationalised industries.

Questions for Examination

4. In carrying out this study, the CPRS is looking first at the evidence on how in practice monopoly power has been exploited. The study will aim to identify the important factors - for example management attitudes, labour intensity, inflexibility of industry structure, effects of industrial action, long lead times for new investment, union tradition etc. International comparisons will be made to see whether experience in other countries is different, and why.

5. A major part of the study will be an examination of ways of reducing monopoly power by introducing more competition and greater exposure to financial and market forces, in particular:-

(a) encouragement of alternative sources of supply in the short and longer term;

(b) privatisation of ownership (in whole or in part), removing the Government's guarantee of non-bankruptibility;

(c) introduction of private sector capital into new projects and ventures within an industry;

(d) de-regulation to allow private suppliers to compete.

6. Where direct competition cannot be introduced or increased, the study will seek to identify other changes which might help to reduce monopoly power, and in particular the power of the unions. These changes might include restructuring the industry into separate regional operations, and introducing local and regional pay or productivity agreements.

7. The study will also examine the role which might be played by regulatory authorities in fostering and facilitating privatisation and competition, the form such authorities might take, and their overall merits and demerits.

Industries to be Studied

8. The CPRS proposes to concentrate mainly on a few industries as examples for detailed study. These are:-

(a) coal - not itself a natural monopoly, since it can be imported, and for the dominant use (electricity generation) there are close substitutes (oil and nuclear). In practice, at least in the short run, there is a large degree of monopoly power through electricity supply and the NUM have shown a readiness to use it;

(b) electricity - in practice a monopoly, in the sense that for most consumers there is no possibility of a competing source of supply and for some uses there are no close substitutes;

(c) water - a natural monopoly which has a different regionalised structure and is part privately owned and regulated;

(d) telecommunications - steps are currently being taken by the Government to increase the degree of competition and to privatise the industry. This is likely to require some separate regulatory authority.

9. The areas for examination within each of the industries are commented on briefly in the Annex. The aim will not be to produce a blueprint for changes within each industry, but to examine these as test cases leading to conclusions on the general questions.

Method of Work

10. The CPRS has already done some work in this area and the next phase will be discussions with the Treasury and sponsor Departments, both on

the general questions and the industries chosen for specific examination. Consultation on particular questions can then be extended more widely as appropriate. A key feature will be examination of international comparisons, particularly in the USA and Germany of the telecommunications and electricity industries and forms of regulation which might be appropriate for these industries in the UK.

Study Programme and Timing

11. The study will be conducted in two parts. The first part will cover researching the facts in discussion with Departments and industries in the UK. The second part will comprise an examination of international comparisons and formulation of conclusions and recommendations. This is expected to be completed by the end of July, for consideration by Ministers in the autumn.

Coal

The NCB's annual output of coal is approximately 120 million tonnes which is disposed of as follows:-

	%
Power Stations	70
Coke Ovens	8
Other UK Markets	18
Exports	4
	100

2. The UK Electricity Supply Industry is heavily dependent upon the NCB since 75% of the electricity supply is generated by coal-fired power stations and 95% of the coal burnt is purchased from the NCB. The remaining 5% is imported. The National Union of Mineworkers has significant monopoly power for the following reasons:-

(a) in the short term the CEGB has no real alternative to the NCB;

(b) the NUM is a highly organised industrial union with a tradition of centralised wage negotiations;

(c) prolonged industrial action by the NUM (together with support from the NUR) leads to shortage of coal at the power stations, despite some strategic stockholding. If generating capacity is reduced to 85% of electricity requirement, this has serious adverse implications for British industry.

3. NUM monopoly power has led to some adverse consequences for the industry and the coal market as a whole:-

(a) the NCB has been constrained in closing inefficient and loss-making pits. In the past this has kept coal prices high and continues to result in deficits which need to be financed by Central Government.

(b) productivity in British mines is low by international comparisons;

(c) the NUM has been able to restrict imports of coal; this has led to a further concentration of monopoly power;

(d) the NCB has surplus production which it can only dispose of by exporting at a substantial loss.

4. The study will examine how far competition can be introduced into the UK coal industry in one or more of the following ways:-

(a) introduction of private capital into new mining ventures - whether private sector companies could be involved in new deep mining and open-cast mining ventures, either on their own or in collaboration with the NCB;

(b) increasing imports of coal - whether more coal could be imported direct to power stations, and what limitations are posed by the availability of suitable ports and the proximity of coal-fired power stations to such ports;

(c) privatisation - whether some regions or parts of the NCB could be privatised, particularly open-cast coal mining which accounts for 12% of the NCB's output.

5. The study will also examine the feasibility and effects of:-

(a) regionalising the NCB further so that individual regional organisations can negotiate terms and prices directly with the CEGB and compete with each other for new investment;

(b) decentralising wage negotiations, initially by improving local productivity schemes;

(c) reducing the flow of new capital for investment by the NCB, so that eventually output falls below UK demand and the CEGB has to find coal from other sources.

(d) reducing the dependence of the CEGB on the NCB by accelerating the programme of investment in nuclear power stations, coastal based coal-fired stations, dual firing power stations, further cross-Channel electricity links etc.

6. Other action to reduce the power of the NUM will also be considered such as:-

(a) publicising further the facts about loss-making pits;

(b) increasing strategic stocks of coal at power stations.

Electricity

7. In England and Wales, the Electricity Supply Industry comprises the Central Electricity Generating Board which generates electricity and 12 Area Boards, which distribute and supply electricity to consumers as well as providing customer services. In Scotland there are two boards which both generate and supply electricity. For the reasons

given above the CEGB and the NCB are heavily inter-dependent. The Electricity Supply Industry has, with minor exceptions, a monopoly of generation and of distribution.

8. The study will consider how far competition can be introduced into the UK Electricity Supply Industry, in one or more of the following ways:-

(a) the encouragement of private sector companies to build power stations for their own use or for the purpose of offering power for sale to other users;

(b) further encouragement of Combined Heat and Power (CHP), possibly under a separate Board;

(c) regionalisation of the CEGB, allowing the new area generating boards to negotiate the sale of electricity to the area distribution boards;

(d) privatisation of either or both of:-

(i) area generating boards;

(ii) area distribution boards.

9. The study will examine the case for establishing a regulatory authority:-

(a) to expose inefficiency and to make pricing and investment decisions more transparent and detached from Government;

(b) post-privatisation to prevent abuse of monopoly power by approving price increases and stimulating investment where appropriate.

Experience in the USA and Germany will be relevant here, particularly the former where regulation has apparently led to lower electricity costs and lower prices, but also to low profits and lack of new investment.

10. The scope for decentralising wage bargaining and introducing local productivity deals will also be considered.

Water

11. The water industry was reorganised in 1973 in order to bring under common management the whole of the water cycle, comprising river control, land drainage, treatment of water, disposal of water and water collection and supply. As a result the former municipal undertakings and water

monopoly for many years, technological developments in the industry have opened up the possibility of competing networks. Efforts are also currently in hand to introduce competition in such areas as attachments and value-added services.

16. Because of the traditional monopoly position of BT, the unions who are well organised and centralised have been able to exercise monopoly power. This has led to:-

(a) high pay settlements;

(b) resistance to change, overmanning and out-of-date practices when compared to the rapid technological change in the industry;

(c) low productivity.

These features have resulted in higher prices than are justified by reference to the economic gains from improved technology.

17. BT's monopoly position has also led to other inefficiencies such as:-

(a) delays in investment in new technology, in particular computerised exchanges;

(b) long delays in meeting customer demands;

(c) excessive bureaucratic controls in the service of customers.

These features have also resulted in higher prices than are justifiable.

18. The study will examine the measures being introduced to encourage competition to BT and so promote efficiency and reduce monopoly power; these measures include:-

(a) liberalising the supply of value-added networks and subscriber apparatus;

(b) licensing an alternative network, Mercury.

It will also look at the other measures presently under consideration:-

(c) permitting competitors to link up with the international network;

(d) allowing capacity on circuits leased from BT to be resold;

(e) considering the introduction of competition in areas outside traditional public communications, such as broadband cable.

The study will consider any other measures which would facilitate increased competition to BT.

19. The need for and form of regulation will also be considered, including the means of ensuring that BT does not abuse its dominant position in the industry to stifle competition, for example by retaining powers of licensing or by subsidising price-cutting. In considering this, the CPRS will keep abreast of studies presently being carried out on this subject in the Department of Industry.

DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

cc BT
MAP

cc AD
JV

Prime Minister (2)

From the Secretary of State

MS 24/2

CONFIDENTIAL

The Rt Hon Nigel Lawson MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
London, SW1P 4QJ

24?

February 1982

Dear Nigel,

COMPETITION ACT 1980: PUBLIC SECTOR REFERENCES TO THE MONOPOLIES AND MERGERS COMMISSION

Please refer to your minute of 19 February to the Prime Minister.

If the BGC Board are reluctant to agree to a study of their efficiency by management consultants, I would be happy to see a reference to the Commission early in 1983. However, I am very anxious that the 1982 S 11 reference programme should be announced this week and that the NCB and water references should be made at the same time. I agree therefore that we should leave the question of any announcement on what is to be done about BGC until later.

I enclose a draft arranged Question and Answer for Thursday 25 February. This is based on the E(NI) decision that there should be five references this year, including two area electricity boards. I agree about the Yorkshire Board, but your proposal that the Commission should look also at the London Electricity Board (LEB) in 1982 raises problems, and I have therefore not included it in the announcement. As you know, the Director General of Fair Trading is currently conducting a preliminary investigation into alleged anti-competitive practices by the Board. When his report is available he will then have to decide whether to refer any anti-competitive practices established to the Commission under Section 5

CONFIDENTIAL

From the Secretary of State

CONFIDENTIAL

of the Competition Act 1980. The timing of any reference is tightly constrained by the Act as the Director General would not be able to postpone making a Section 5 reference until an efficiency enquiry had been completed later this year.

I think it would be unwise to refer the LEB to the Commission twice in the course of a few months. It would smack of vindictiveness and impose a considerable burden on the management, which might make them generally less co-operative with the Commission. I therefore propose that my announcement next week should omit any mention of the LEB. If, however, the Director General decided against making a S 5 reference, we could re-instate a Section 11 enquiry. In practice, for operational reasons, the Commission would almost certainly have to look at the YEB and LEB consecutively rather than concurrently.

I shall be most grateful for any comments on the draft announcement by close of play on Wednesday 24 February.

I am copying this letter and enclosure to the Members of E(NI) and to Sir Robert Armstrong.

Yrs

John Biffen

JOHN BIFFEN

CONFIDENTIAL

RESTRICTED

DRAFT

Q To ask the Secretary of State for Trade, what further references he intends to make to the Monopolies and Mergers Commission under section 11 of the Competition Act 1980.

A My rt hon friend, the Financial Secretary to the Treasury, announced to the House on 30 November last that the Government intended to strengthen the role of the Monopolies and Mergers Commission in scrutinising the efficiency of nationalised industries and other public sector undertakings. The number of investigations was to be increased, with each year's programme being announced in advanced.

The bodies to be investigated this year are :

National Coal Board

Anglian and North West Water Authorities (sewerage)

Caledonian MacBrayne (part of the Scottish Transport Group)

Yorkshire Electricity Board

the Civil Aviation Authority

I have referred the NCB and the two water authorities today.

Like the earlier very useful studies of nationalised industries' efficiency conducted by the Commission, the investigation of the National Coal Board will cover the major aspects of the Board's efficiency and costs, including for example internal cost control, purchasing policies and the appraisal and control of investment projects.

The investigation of the two water authorities will cover their efficiency in carrying out their responsibilities for sewerage.

Sewerage is usually carried out on behalf of water authorities through local district councils, under arrangements provided for in the Water Act 1973. The inquiry will include the question of the efficiency of these arrangements.

The scope of the other inquiries to be launched in 1982 will be announced when the references are made.

NBPM
MS
cc AD
JV

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

01-211 6402

Rt Hon John Biffen MP
Secretary of State for Trade
Department of Trade
1 Victoria Street
London
SW1H OET

1 March 1982

Dear Secretary of State

COMPETITION ACT 1980: PUBLIC SECTOR REFERENCES TO THE MMC

Thank you for your letter of 24 February, with draft arranged question and answer.

So far as the NCB and BGC are concerned, I am content with what you suggest.

As regards electricity, I should like, subject to Nick Edwards' agreement, to substitute the South Wales Board (SWALEB) for the LEB, so that we can keep the agreement we reached in E(NI) that two Area Electricity Boards should be referred to the MMC under Section II this year.

YEB is a larger Board in terms of turnover, and SWALEB a small one, and both serve a number of significant industrial customers. In combination they represent a useful representative sample of the electricity distribution and sales industry.

I am copying this letter to the recipients of yours, and to Nicholas Edwards.

Yours sincerely

David Lewis

pp NIGEL LAWSON
(Approved by the Secretary of State
and signed in his absence)

DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

cc BI MAP JV AD

Prime Minister (2)

MCS 2/3

From the Secretary of State

The Rt Hon Nigel Lawson MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
London SWIP 4QJ

/ March 1982

Dear Nigel,

COMPETITION ACT 1980: PUBLIC SECTOR REFERENCES TO THE MONOPOLIES AND MERGERS COMMISSION

Further to my letter to you of 24 February, I understand that you are prepared to defer for the moment the idea of referring the London Electricity Board to the MMC and that both you and Nicholas Edwards are happy to see the South Wales Board referred instead. I am content to go along with this and enclose a revised announcement which I intend to make on Wednesday March 3rd.

I have now seen Jim Prior's letter of 23 February to Leon Brittan about the Northern Ireland Electricity Service and Leon's letter to me on the same subject of the 26th. I am of course very happy to consider a reference of NIES in 1983. However, if two area boards are to be referred this year (a decision taken by E(NI)) I fear we shall almost certainly be unable to refer NIES until next year.

I am copying this letter and enclosure to the members of E(NI), to Jim Prior, John Nott and to Sir Robert Armstrong.

Yours
John Biffen

JOHN BIFFEN

DRAFT CONFIDENTIAL To be attached to SS DOT - SS En 1.3.82 re Competition Act 1980:

cc BJ
MAP
JV
AD

Q To ask the Secretary of State for Trade, what further references he intends to make to the Monopolies and Mergers Commission under section 11 of the Competition Act 1980.

A My rt hon friend, the Financial Secretary to the Treasury, announced to the House on 30 November last that the Government intended to strengthen the role of the Monopolies and Mergers Commission in scrutinising the efficiency of nationalised industries and other public sector under--takings. The number of investigations was to be increased, with each year's programme being announced in advance.

The references to be made this year are:

National Coal Board

the sewerage functions of Anglian and North West Water Authorities

Caledonian MacBrayne (part of the Scottish Transport Group)

Yorkshire Electricity Board

the Civil Aviation Authority

South Wales Electricity Board

I have referred the NCB and the two water authorities today.

Like the earlier very useful studies of nationalised industries' efficiency conducted by the Commission, the investigation of the National Coal Board will cover major aspects of the Board's efficiency and costs, including for example internal cost control, purchasing policies and the appraisal and control of investment projects.

The investigation of the two water authorities will cover their efficiency in carrying out their responsibilities for sewerage. Sewerage is usually carried out on behalf of water authorities through local district councils, under arrangements provided for in the Water Act 1973. The inquiry will

include the question of the efficiency of these arrangements.

The scope of the other inquiries to be launched in 1982 will be announced when the references are made.

Prime Minister

MCS 1/3

(2) cc JV AD

CABINET OFFICE

Central Policy Review Staff

70 Whitehall, London SW1A 2AS Telephone 01-233 7765

From: **J. R. Ibbs**

CONFIDENTIAL

Qa 05847

26 February 1982

Dear Secretary of State,

MT

Consultancy Study of British Gas

I have read your minute of 19 February to the Prime Minister and Michael Scholar's reply that the Prime Minister agrees to pressing ahead with a consultancy study, but that if British Gas are unwilling, they should be included as early as possible in the programme of MMC references for 1983.

Paragraph two of your minute referred to an external report on BGC's "organisation and structure" and your recommendations referred to a study of BGC's "organisation and operations". An MMC reference would normally concentrate on areas where efficiency could be improved and operating costs reduced. Such an efficiency study would include consideration of the organisation, structure and operations.

I believe it is important that the terms of reference for consultants should state without ambiguity the precise nature of the study. Any uncertainty both reduces the chance of getting valuable recommendations and increases the risk of misunderstanding with BGC. I suggest that the terms of reference should refer specifically to efficiency and also make it clear that organisation, structure and operations are all to be included in the study.

I am sending a copy of this letter to the Prime Minister, members of E(NI) and to Sir Robert Armstrong.

Yours sincerely,

J R Ibbs

The Rt Hon Nigel Lawson MP
Department of Energy
Thames House South
SW1

CONFIDENTIAL

Notified Policy

2pp

NTBPM

JV

MM

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon John Biffen MP
Secretary of State
Department of Trade
1 Victoria Street
London SW1H OET

26 February 1982

Dear Secretary of State,

COMPETITION ACT 1980: PUBLIC SECTOR REFERENCES TO THE MONOPOLIES AND MERGERS COMMISSION

You copied to me your letter to Nigel Lawson enclosing a draft arranged Question and Answer setting out the 1982 MMC programme for nationalised industries.

I had no comments on the terms of the draft announcement. However, we clearly want the programme set out in the announcement to be and to look as substantial as possible. Since there are difficulties about referring the LEB in 1982, we should surely take up the offer in Jim Prior's letter to me of 23 February to include the Northern Ireland Electricity Service in the 1982 programme. The LEB could still be referred in early 1983 if the Section 5 reference did not materialise.

A much less attractive alternative would be to include both the Yorkshire and London Boards in the 1982 announcement but to have reached a clear understanding with the LEB and OFT that the LEB reference would only take place in practice if the Director General decided not to refer them to the MMC under Section 5. However, since we have an agreed alternative candidate available in the form of the NIES I see no reason why it should not be included in LEB's place.

I am copying this letter to the other members of E(NI) and Sir Robert Armstrong.

Yours sincerely

LEON BRITTAN

pp (approved by the Chief Secretary & signed in his absence)

CONFIDENTIAL

MFJ

Nat Ind.

10 DOWNING STREET

From the Private Secretary

22 February 1982

Dear Julian,

The Prime Minister was grateful for your Secretary of State's minute of 19 February about the proposed consultancy study of British Gas.

Subject to the views of colleagues, the Prime Minister agrees that we should exclude British Gas from the announcement of the 1982 MMC references; that your Secretary of State should press ahead with securing British Gas' agreement to a joint appointment of consultants to carry out an early study of BGC's organisation and operations when the Oil and Gas (Enterprise) Bill becomes law. She agrees, too, that if British Gas do not agree to the consultancy study they should be included as early as possible in the programme of MMC references for 1983.

I am sending a copy of this letter to the Private Secretaries to the other members of E(NI) and to David Wright (Cabinet Office).

Yours sincerely,

Michael Scholar

Julian West Esq
Department of Energy

JR

Prime Minister

Agree to a), b), and c) below?

MCS 19/2

JV AD (1)

Yes

PRIME MINISTER

At E(NI) on 12 February we agreed to an early consultancy study of British Gas which would be announced at the same time as the MMC references for 1982.

As the Chief Secretary's paper - E(NI)(82)1 - makes clear, if this is to be a worthwhile exercise I need to secure BGC's agreement to a jointly-commissioned study (for which I also intend that they should pay). I shall shortly be seeing Sir Denis Rooke to this end. At that time I shall make it clear that we are determined to have an external report on BGC's organisation and structure and that we will refer this to the MMC if they do not agree to a joint appointment of consultants.

If they refuse we could then include them in the programme of references for 1982. But this means that we would not be in a position to announce the programme until BGC have responded. On the other hand I am anxious to press ahead with an early announcement of the NCB reference. This points to excluding BGC from the 1982 MMC references.

I would therefore like your and colleagues' agreement that:

(a) we exclude BGC from the announcement of the 1982 MMC references;

(b) I press ahead with securing BGC's agreement to a joint appointment of consultants to carry out an early study of BGC's organisation and operations when the Oil and Gas (Enterprise) Bill becomes law;
and

(c) if they do not agree to the consultancy study, they should be included as early as possible in the programme of MMC references for 1983.

I am copying this to members of E(NI) and to Sir Robert Armstrong.

NL

Secretary of State for Energy

19 February 1982