

Confidential filing.

Gas and Electricity Pricing Policy.

Gas and Electricity Industries EFL's.

Industrial Energy Pricing.

NATIONALISED

INDUSTRIES.

Part 1 : Sept 1979

Part 5 : June 1981.

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
<del>10-6-81.</del>		<del>24.9.81</del>					
<del>15.6.81</del>		8.10.81					
<del>17.6.81</del>		<del>ends</del>					
<del>22.6.81</del>							
<del>23.6.81</del>							
<del>24-6-81.</del>							
<del>6.7.81</del>							
<del>8.7.81</del>							
<del>9.7.81</del>							
<del>10.7.81</del>							
<del>13.7.81</del>							
<del>16.7.81</del>							
<del>31.7.81</del>							
<del>4.8.81</del>							
<del>7.8.81.</del>							
<del>10.8.81.</del>							
<del>11.8.81</del>							
<del>14.9.81</del>							
<del>24.9.81</del>							

PREM 19/544

PART 5 ends:-

12.10.81

PART 6 begins:-

13.10.81

TO BE RETAINED AS TOP ENCLOSURE

**Cabinet / Cabinet Committee Documents**

Reference	Date
E (DL) (81) 8	1.6.81
MISC 56 (81) 6	1.6.81
MISC 56 (81) 7	1.6.81
MISC 56 (81) 9	2.6.81
MISC 56 (81) 8	3.6.81
MISC 56 (81) 12	5.6.81
E (DL) (81) 10	5.6.81
E (DL) (81) 11	8.6.81
MISC 56 (81) 11	8.6.81
E (DL) (81) 2 <sup>nd</sup> Meeting, Minute 1	10.6.81
MISC 56 (81) 3 <sup>rd</sup> Meeting, Minutes	10.6.81
E (81) 68	17.6.81
E (81) 69	18.6.81
E (81) 21 <sup>st</sup> Meeting, Minute 1	23.6.81
CCU (81) 39	10.7.81
CCU (81) 15 <sup>th</sup> Meeting, Minute 3	13.7.81
E (81) 80	22.7.81

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate CAB (CABINET OFFICE) CLASSES

Signed Wayland

Date 5 July 2011

**PREM Records Team**

Top copy  
Pattison

Legislation, Pt 8.



✓ M40  
NAT  
hel

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Julian West Esq  
Private Secretary  
Department of Energy  
Thames House South  
Millbank  
LONDON SW1

12 October 1981

Dear Julian  
*attached*

My Secretary of State has seen a copy of Mike Pattison's letter of 12 October to you about a possible debate on Energy Pricing Policy at the Party Conference.

Mr Tebbit strongly supports your Secretary of State's proposals for announcing the Government's decisions in relation to gas showrooms within the broader framework outlined. He is happy that a statement on these lines should be made this week.

I am sending copies of this letter to the Private Secretaries to the members of Cabinet and to the Private Secretaries to the Paymaster General and the Minister of State for Consumer Affairs. A copy also goes to David Wright (Cabinet Office).

Yours  
Marie Fahney

MISS M C FAHEY  
Private Secretary

Top copy.  
Parliament Legislation  
Re 8



10 DOWNING STREET

*From the Private Secretary*

12 October 1981

Your Secretary of State minuted the Prime Minister on 8 October, about the possibility of a debate on energy pricing policy at the Party Conference.

Mr. Lawson suggested that the Government's position might be better received in such a debate if he were to broaden it out, and to unveil the privatisation and monopoly breaking moves on the oil and gas front which have been agreed by Ministers, notably at Cabinet on 24 September. He suggested that he should, at the same time, make it clear that - partly in consequence of this - it will be necessary to delay action on BGC's gas showrooms since there will not be time for the necessary safety legislation in the coming Session. He explained that, provided it can be made clear that the Government still intend as soon as practicable to deal with the problem of the BGC retail monopoly, he felt that all this could be presented as a single coherent package which the Government supporters would accept as a whole, rather than as a climb-down in the face of union pressure, an interpretation that might be given to the showroom decision on its own.

The Prime Minister has also seen the exchanges between your Secretary of State, the Minister of State for Consumer Affairs, the Secretary of State for Employment, and the Lord President of the Council about the legislative programme, which took place whilst she was in Australia. She accepts

/ that

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- 2 -

that primary legislation will be necessary before BGC can be required to cease appliance retailing and dispose of their showrooms, and that such legislation cannot be included in the programme to be announced in The Queen's Speech. She was very much aware of the point made in the Secretary of State for Employment's letter of 6 October about the care needed in handling an announcement of these decisions, and she believes that the approach proposed by your Secretary of State offers the best prospect of convincing the Government supporters. Subject to any comments from Trade Ministers, the Employment Secretary, or the Lord President of the Council, she is therefore content that he should approach any energy debate at the Party Conference on the lines he has suggested.

I am sending copies of this letter to the Private Secretaries to the members of Cabinet and to the Private Secretaries to the Paymaster General and the Minister of State for Consumer Affairs. A copy also goes to David Wright (Cabinet Office).

M. A. PATTISON

J. D. West, Esq.,  
Department of Energy.

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Top copy: Parliament  
Legislation Pt 8,  
PRIME MINISTER

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cc Mr Hoskyns  
Mr Howe

Mr Lawson seeks your authority for the line he would like to take at the Conference on energy policy. Cecil Parkinson has assured him that energy will be one of the balloted motions.

He wants to centre on the privatisation moves in oil and gas. As a residual point, he would like to make it clear that the gas showrooms issue would have to wait longer, because there will not be time for the necessary safety legislation in the coming session.

Mr. Lawson has consciously not copied his minute to Mrs. Oppenheim or Mr. Biffen. I am told that he wanted to persuade Mrs. Oppenheim of the case for handling matters this way before showing her how he proposed to put it to you, but he was unable to contact her yesterday because of Yom Kippur. He intends to speak to her today. In Mr. Lawson's view, the prime objective is to avoid a gas strike, and he believes this presentation will do so.

There have been a number of exchanges over the showroom legislation point while you have been away. The papers are elsewhere in the weekend box, with a report on the legislative programme as a whole. You may want to look at those before agreeing to Mr. Lawson's proposal. If you are then content with what he has in mind, would you like to agree subject to Trade Ministers and the Employment Secretary concurring?

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Yes not

MJD

9 October 1981

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✓ A. Walker

A. Douglas

(2)

Nabud

✓ Econ Pd. Pt 9.  
Monetary Policy

Prime Minister

*[Handwritten signature]*

To note.

PRIME MINISTER

Ms 9/10

INDUSTRIAL ENERGY PRICES AND THE EXCHANGE RATE

Econ Pd. Pt 9.  
Domestic Monetary Policy

The minutes of Cabinet on 15 September (CC(81)31st Meeting) invited me to report on comparative costs of energy to industrial users in the UK in the light of recent exchange rate movements.

The NEDC task force report prepared earlier in the year by Government, CBI, TUC and fuel industry representatives found that fuel prices to the majority of UK industrial consumers were in line with those in Europe. There were, however, disparities for large consumers of gas (up to 20%) and for large, high load factor users of electricity (up to 35%). Since January sterling has depreciated about 10% against the Deutschmark and 7% against the French franc, most of this in the past few weeks. This helps energy price comparisons correspondingly. The attached table, which shows January electricity tariffs to large consumers at the January exchange rates and at current exchange rates, illustrates the improvement. Depreciation so far, however, has not fully offset the considerable strengthening of sterling against European currencies which took place during 1980 (20% or more) and which contributed significantly to the disparities.

The earlier NEDC comparison is now being updated. In addition to exchange rate movements, this new comparison will take account of price increases this year, both in other countries and (mitigated by the Budget concessions) in the UK. I cannot anticipate the outcome. But on the basis of available data and at present exchange rates, it seems likely that:-





-2-

- (a) the disparities for large, high load factor electricity consumers will have narrowed. These will not, however, have been eliminated at the highest load factors against Germany and could still reach 25% against France (where the growing nuclear power contribution is also a factor).
- (b) some disparities will also remain for large consumers of firm gas. Under the influence both of oil prices and higher prices for Dutch gas, prices in Europe have now generally moved up to the mid 20s in pence/therm. But average prices in the UK have also increased, within the renewal price ceilings set in the Budget, from about 22p/therm to 25p/therm for interruptible gas and 25p/therm to 29p/therm for firm gas.

Realignment of currencies in Europe may help comparisons further in relation to Germany and Holland. But the effects on sterling parities and fuel price comparisons with other European countries are less certain.

I am copying this minute to the members of Cabinet, Sir Robert Armstrong and Mr Ibbs.

SECRETARY OF STATE FOR ENERGY

8 October 1981

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ELECTRICITY TARIFFS FOR LARGE CONSUMERS APPLYING IN JANUARY 1981

Demand (Megawatts)	Load Factor (%) (1)	England & Wales (2)	pence per Kilowatt/hour			
			France		Germany	
			(3)		(4)	
			Jan exchange rates	Oct exchange rates	Jan exchange rates	Oct exchange rates
4	40	2.91	2.25	2.40	2.82	3.11
	60	2.75	2.04	2.17	2.31	2.55
	80	2.67	1.89	2.01	1.99	2.20
10	40	2.87	2.22	2.36	2.74	3.02
	60	2.72	2.03	2.16	2.26	2.50
	80	2.64	1.87	1.99	1.95	2.15
40	40	2.74	1.87	1.99	2.70	2.98
	60	2.60	1.73	1.84	2.23	2.46
	80	2.53	1.61	1.71	1.94	2.14

- (1) Actual consumption expressed as a percentage of what it would be if the consumer's maximum demand were sustained throughout the year.
- (2) Yorkshire and North Western electricity board tariffs.
- (3) Electricite de France "tarif vert".
- (4) Rheinisch-Westfälisches Elektrizitätswerk (RWE), the largest of the German utilities which serves the Ruhr. Tarif L 120.

source: Table 15 of NEDC Energy Task Force Report, February 1981.

exchange rates: DM 4.702 on 2 January and DM 4.26 on 1 October;  
FF.10.866 on 2 January and FF 10.2 on 1 October.



*cy A. Puguid*

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*copied to  
Policymakers Energy  
Energy*

PRIME MINISTER

I understand from Cecil Parkinson that one of the two balloted motions for debate at the Party Conference will be on the Government's energy pricing policy. On the scheduled programme, of course, there is no Energy debate at all.

While I will defend our policies to their best advantage, this can only be a damage limitation exercise - and the damage caused by an energy price debate, however limited, would still be considerable.

There is, however, one way out of this predicament. That would be for me to broaden out the debate and to unveil the privatisation and monopoly-breaking moves on the oil and gas front on which we have decided - particularly those agreed at Cabinet on 24 September. These will be warmly welcomed by the Conference and give encouragement to our supporters. There is also a clear connection between the BGC monopoly and the energy price problem.

At the same time, I think I should make it clear that, partly in consequence of this, we will delay action on BGC's gas showrooms since there will not be time for the necessary safety legislation in the coming Session. Provided we make it clear that we still intend as soon as practicable to deal with the problem of the BGC retail monopoly, I believe that all this can be presented as a single coherent package which our supporters will accept as a whole, rather than as a climbdown in the face of union pressure - which is how the showroom decision, on its own, would inevitably be interpreted.

In this context Norman Tebbit has already written to me suggesting that against the mounting volume of threatening noises from the

/unions.....



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unions about an all-out strike, it is important that we should make an early statement of our new position on the gas showrooms. I believe that the approach I am proposing will meet Norman's concern, and do so in the way that is least damaging to the Government.

I should be most grateful for your agreement to the course I am proposing.

I am sending a copy of this minute to the Home Secretary, the Lord President of the Council, the Chancellor of the Duchy of Lancaster and the Paymaster General.

*NR*

Secretary of State for Energy

8 October 1981



*J. Lawson*  
*A. Deighton*  
*A. Walker*

*esp copy:*

*Parliament, Legislation PC8*  
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Rt Hon Nigel Lawson MP  
 Secretary of State  
 Department of Energy  
 Thames House South  
 Millbank  
 LONDON SW1

6 October 1981

*Dear Secretary of State,*

MMC REPORT ON GAS APPLIANCES

I have seen your minute of today's date to the Prime Minister.

As it seems clear that we cannot now contemplate requiring BGC to cease appliance retailing and dispose of their showrooms in the foreseeable future, you will no doubt be considering how best this information might be publicly released.

My main concern is one of timing. During the Labour Party Conference last week, national officials of the GMWU pointedly repeated their earlier threats to cut off gas supplies nationally if the Government goes ahead with its proposals. NALGO decided at the weekend to call a special conference of its members in the gas industry to decide on a programme of opposition to the proposals. I am concerned that, against a background of threatening noises of this kind, the later we leave it the more difficult it will be to let it be known publicly that we cannot now proceed in accordance with the timetable originally contemplated without this being seen as a last-minute climb down in the face of an imminent shutdown in gas supplies. To have proceeded with our original proposals would have carried with it some risk of providing a cause on which unions might build a campaign of industrial action that would have spilled over into pay demands. Equally to be seen as making a last minute climb down would not strengthen our position either.

I hope you will agree, therefore, that some kind of statement should be made soon, making clear that until the necessary safety legislation is enacted it will not be practicable to implement the powers that are to be taken in relation to BGC showrooms.



I am copying this letter to members of the Cabinet and to the Minister for Consumer Affairs.

*Yours sincerely,*

*R. B. [Signature]*

*Private Secretary*

Approved by the Secretary of State and signed in his absence



PRIME MINISTER

MMC REPORT ON GAS APPLIANCES

I have seen Sally Oppenheim's letter to you of 28 September, and Francis Pym's of 1 October.

You will recall that Cabinet agreed on 24 September that the gas legislation in the next Session should not cover gas safety and that our plans for BGC to cease appliance retailing and dispose of their showrooms would therefore have to be postponed. Sally is worried that the Government will be criticised for delaying action on the MMC Report and she has suggested that my Department should consider whether adequate safety measures could be introduced without recourse to primary legislation. I have considered whether this might be possible but am satisfied that primary legislation cannot be avoided.

The crux of the matter is the standard of servicing, repair and installation. Although BGC would not be directed to forgo installation and servicing, they would expect to lose work to private firms. We have to ensure that all such firms maintain the safety standards at present maintained by BGC. Otherwise we would not be able to honour the assurances which Sally has rightly given that we will not allow safety levels to be reduced. After

After wide consultations the remedy favoured by my Department is to set up a new safety body with statutory powers to license gas installers. This would replace the present voluntary and far from comprehensive system operated by the Confederation for the Registration of Gas Installers (CORGI). Once this body was established it would be a criminal offence for any company or individual to undertake gas installation and servicing work for reward unless licensed to do so. There would be a power of entry to inspect work carried out by licensees and, where necessary, to disconnect appliances. Fees would be charged for the issue of licences and there would be a right of appeal against refusal of a licence.

All this would of course require primary legislation. The only way to shorten that legislation would be to dispense with a statutory body and



operate the new system from this Department. However, this would require more than 100 additional posts, which certainly could not be met from within our manpower ceilings, and I am not sure that it would be as good a demonstration of our concern for safety. What is more, primary legislation would still be needed to give me the necessary powers to operate the licensing system, charge fees, obtain entry to premises and deal with appeals. I am advised that the existing safety provisions in the 1972 Gas Act are not wide enough to cover all this. Whichever route we adopted, the work needed prior to introduction to define the necessary powers and procedures would take up much the same amount of time.

I recognise Sally's concern and I have no doubt that we must take effective action to deal with BGC's monopoly in appliance retailing. But <sup>Equally</sup> I have no doubt that we were right to decide that our first priority, in terms of gas legislation in the coming Session, must be to break the overall gas monopoly/monopsony that lies at the heart of the BGC problem. At the same time, we will be taking general powers of disposal which will enable us to privatise BGC's valuable offshore oil business without further delay, as well as to deal with the showrooms, as originally planned, as soon as the necessary safety legislation is in place - unless in the meantime of course, we have been able to devise some less contentious but equally effective means of dealing with BGC's retailing monopoly. I am sure that politically as well as economically this is the right way to proceed.

I am copying this minute to Cabinet colleagues as well as to the Minister for Consumer Affairs.

A handwritten signature in dark ink, appearing to be 'XR' with a small dash below the 'R'.

SECRETARY OF STATE FOR ENERGY

6 October 1981





From the  
Minister of State  
for Consumer Affairs

The Rt Hon Sally Oppenheim MP

PRIME MINISTER

No 10 Downing Street  
LONDON SW1

28 September 1981

*David Wright (C.O.)*

MMC REPORT ON GAS APPLIANCES

I thought I ought to write to you about the decisions which Cabinet reached last week on this Report, which of course have considerable implications, both practical and presentational, on the next steps which the Government should take.

The agreement which Cabinet reached that powers should be taken to direct British Gas to dispose of specified interests will be an essential step towards putting in hand our decision on the disposal of the Corporation's showrooms; and I welcome the confirmation that this is to form part of the legislative programme. There remains the question of legislation on safety; and I do not accept that it need be the case, as Cabinet appear to have envisaged, that in the case of the gas showrooms the exercise of the power to require disposals will need to be deferred until time can be taken for passing the relevant safety legislation. This is because the Department of Energy's view, as I understand it, primary legislation may not be a prerequisite for improving Safety Regulations, and that the scope for using existing powers should first be explored, and may prove adequate.

Presentationally a delay until the session after next could be very serious, particularly as it is now a year since the Monopolies and Mergers Commission reported. It could postpone the start of the five-year programme of disposals from (say) the middle of next year until the middle of 1983. Whether this delay is unavoidable depends, as

/I

Cont'd

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*Energy Community*

*Top copy: Parliament, Legislation R8.*



have said, on the need for legislation on safety, its scope, and the time it is likely to take in Parliament. If no primary legislation were required, the time taken in Parliament would be negligible. Even if primary legislation were required, it would not necessarily take long; and I have been glad to note Willie Whitelaw's understanding that even where reference to legislation is omitted from the Queen's Speech, that would not necessarily prevent relevant legislation being brought forward later if the Parliamentary situation proved less difficult than at present feared.

It therefore remains important for us to settle the scope and content of any primary legislation on safety which is considered necessary. In his minute to you of 5 August on this point, David Howell promised to work out detailed safety proposals, after consultations between his officials, and those of the Departments of Industry and Trade. If you agree, I think that it would now be useful if Nigel Lawson could circulate his proposals to colleagues as early as possible so that we can take the measure of the range of safety measures which he considers necessary, and the extent to which they will require primary legislation. We can then decide whether our decision on the gas showrooms is to be subject to what is effectively a year's delay, or whether the Government can avoid the criticism which this will attract by proceeding at a faster pace.

I should add one further point. Any delay in our implementing our decision will have implications for the private sector's plans in this field. The Association of Multiple Regailers have recently made representations to me underlining the importance which they attach to the action which the Government is taking, and the effect which any apparent indecision could have on their members' plans.

I am copying this to members of the Cabinet.

Yours truly  
Sally

SALLY OPPENHEIM



DEPARTMENT OF TRADE  
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5662

From the  
Minister of State  
for Consumer Affairs

The Rt Hon Sally Oppenheim MP

The Rt Hon Nigel Lawson MP  
Secretary of State for Energy  
Thames House South  
Millbank  
London SW1

24 September 1981

*D. Nigel,*

*R.*

MMC REPORT ON GAS APPLIANCES

You will no doubt be considering the letter which Keith Joseph sent to your predecessor on this subject on 14 September.

The issues which Keith Joseph raised go back to a number of suggestions which I first made in a letter to David Howell of 16 July; and, as he rests with David Howell's letter of 4 August and my letter to him of 10 August. As I said in my letter of 16 July I am sure that it will be necessary, both politically and for other reasons, for us to ensure that the British Gas Corporation considers the whole scheme of disposals with particular care; and I hope that you will feel able to reconsider some of the conclusions reached in David Howell's letter of 4 August, to ensure that this is done.

I have in mind particularly David Howell's view that it was unnecessary to consult expert estate agents on the disposals programme (or, as Keith Joseph would prefer, management consultants). I think this a shortsighted view. All the evidence available to me suggests that the disposals programme, its pace and geographical emphasis, will need to be considered with especial attention and sensitivity. This was brought home to me on 15 September, during questions following my speech to the National Gas Consumers' Council about the Government's decision on showrooms. A number of Regional Chairmen, particularly those from East Anglia and Wales, drew my attention to the fact that the British Gas Corporation showrooms in those areas might be the first to go, as being the least economic for the Corporation to run. They pointed out however that the public, both as gas consumers and appliance purchasers, in these areas would be disadvantaged, compared with urban areas, if

showrooms/.....



showrooms were closed without adequate time being allowed for new retail outlets and other facilities (eg for bill paying) to develop. I answered that I took this point; and I am certain that we must ensure that the British Gas Corporation takes it too.

There are also the other important competition considerations that I referred to in my letter to David Howell of 16 July which make it essential to ensure that early disposals are in areas where the private sector is likely to provide lively, competition and an adequate alternative. The other reason for my concern that these disposals should be handled in as expert a manner as possible - which I am sure you share - is the need to realise as much as possible from the sale of the properties.

I am copying this letter to all members of E and to Sir Robert Armstrong.

Yours ever  
Sally

SALLY OPPENHEIM

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From the  
Minister of State  
for Consumer Affairs

DEPARTMENT OF TRADE  
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The Right Honourable Sally Oppenheim MP

Nigel Lawson Esq MP  
Secretary of State  
Department of Energy  
Thames House South  
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London SW1P 4QJ

DL.  
23 September 1981

*D. Nigel*

*MLG*

MMC REPORT ON GAS APPLIANCES

Norman Lamont wrote on 14 September to John Biffen (who is currently abroad) about the decision to require the British Gas Corporation to withdraw from appliance retailing; and I have since seen John MacGregor's letter to David Mellor of 21 September.

*will request if required*

While I have strong reservations about the desirability of allowing British Gas to retain a presence either in the central heating installation market or in the wholesaling of gas appliances, I am prepared to concede that the balance of the arguments probably points in favour of allowing it to do so in both cases, subject to some major reservations which I should like to see reflected in a number of significant safeguards.

Let me put my general reservation first. Against the background of our overall policy that the scale of the public sector generally should be reduced it is hard to argue that there are objective reasons why it is necessary for British Gas to continue either of these activities, which can be (and, in the case of central heating, already is) provided perfectly adequately by the private sector. However, I recognise that there may be considerable presentational advantages, vis-a-vis the unions, in appearing ready to preserve a substantial number of jobs within British Gas.

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My detailed reservations reflect the points which John MacGregor has made. In the case of central heating I accept that this part of the market was not the subject of reference to the MMC, that the MMC's report did not suggest that the BGC's market position in this field was being abused, and that accordingly there is no competition case for preventing BGC's continuing in this area. But the danger which I foresee relates to the risk of unfair competition with the private sector. If British Gas were not only to retain but also to expand its operations as a supplementary means of occupying its engineering work force on a cost-effective footing the Corporation might be tempted into offering bargain central heating packages, by which it would be able to undercut the private sector through using its workforce at uneconomic rates (ie cross-subsidised from the sale of gas, just as the MMC suggested its appliance sales could have been). You will be aware that there have been allegations of Area Electricity Boards behaving in this way in the market for cavity wall insulation, to the detriment of private contractors. If the Corporation were to gain a substantial market share by such means (and its present share, at about 25%, is already at the threshold of being a statutory monopoly in Fair Trading Act terms) its market power could produce detrimental effects similar to those of its appliance retailing monopoly. I accordingly suggest that if there is to be a proposal that the Corporation should continue in this market we should first consult the private sector (CORGI and any other representative body). Subject to their views, I could only agree to the Corporation continuing in this market if it does so on an economic footing which both limits their market share to its present level and avoids putting private installers at an unfair disadvantage. The course which I would favour to ensure this would be the establishment of a subsidiary company for the business, whose accounts would not only be open to inspection but would also be submitted to the Government for regular monitoring.

Whether the Corporation should remain in wholesaling of other appliances raises different but related issues. Wholesaling fell within the ambit of the reference to the MMC, which covered the supply of the appliances specified in it. I accept that the Commission made no adverse finding on the Corporation's wholesaling activities, and that to that extent there may perhaps be no competition objection to the Corporation continuing in this sector, at least at the level of the very limited market share set out in paragraphs 3.19 of the Report. At the same time, I question the value of past experience as a guide, since the existence of BGC's overwhelming retail monopoly hitherto has meant that there has been only a tiny independent appliance retail sector, with a correspondingly tiny wholesale market to serve it. A new wholesale market has yet to develop; and, like John MacGregor, I would fear that left to themselves BGC, with their existing network of contracts with manufacturers, would be ideally placed to dominate it.

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It would clearly be unacceptable for the Corporation to be allowed to build up a position of market power which it could exercise to the detriment of other wholesalers or of manufacturers. Nevertheless, I recognise that this is not necessarily an argument for excluding the Corporation altogether from the wholesale business altogether. If a display of flexibility is needed, I am therefore ready to agree that they should be allowed to retain their existing share of the market (some 10 per cent). But I would wish this to be subject to safeguards similar to those which I have suggested in the case of central heating.

Aside from these safeguards, I should like to underline a point which I regard as common to both cases. It is that neither the central heating nor the wholesale business of the Corporation could be expected to be conducted from the showrooms, and that the Corporation's continued role in either business would not be used as an argument for retaining the showrooms. I take it that we are agreed on this point.

To my mind these concessions on central heating and on wholesaling should contribute significantly to easing the passage of the Bill. I should like to add a further element of flexibility which could in my view be introduced into the legislation. I believe that the public's fears about the disposal of the showrooms might be allayed if there were a provision in the legislation allowing for a review of progress after each stage of the disposal programme was completed. Your officials and mine ought to consider whether there is an appropriate form which a flexibility provision of this kind might take.

In his letter Norman Lamont also sought details of my Department's consultations with retailers, for your Department to use in discussions with the unions on the likelihood of the private sector filling the gap left by BGC. As my officials have explained to yours, there is a difficulty here. When we recently canvassed the intentions of a number of private retailers with regard to entering the market for gas appliances we undertook that any information they provided would be treated in confidence. The number of important retailing organisations to express an interest was reasonably encouraging, though not all the most significant ones were considering such a move. If the plans of these organisations are to be revealed outside Government we shall clearly have to go back to them to obtain their consent. If you feel this is really necessary perhaps you would let me know.

*Yours truly*  
*Sally*

SALLY OPRENHEIM

CONFIDENTIAL



CC All Members of E  
Lord President of the Council  
Financial Secretary  
PUSS DOI (Mr MacGregor)  
PUSS DEen (Mr Moore)  
Sir Robert Armstrong

CONFIDENTIAL





From the  
Minister of State  
for Consumer Affairs

Prime Minister  
10 Downing Street  
London SW1

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*Subject copy on Parliament PL-8  
Legis. Lecture Page*  
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SWITCHBOARD 01 215 7877

23 September 1981

MMC REPORT ON GAS APPLIANCES

I have seen Willie Whitelaw's memorandum of 21 September on the Queen's Speeches on the Prorogation and Opening of Parliament, which are to be discussed in Cabinet on 24 September; and I have also seen Janet Young's letter to Norman Fowler of 22 September on the role of legislation on local government finance in the legislative programme.

John Biffen is, as you know, out of the country; and I am deeply concerned that tomorrow's discussion will take place without him. I am perturbed, as I am sure he would be, by the proposal in Willie's memorandum canvassing the possibility of dropping legislation on gas appliance retailing from the programme. It is certainly not a proposal to which I could give agreement in his absence, given the major concession which he has already made in the case of the Insolvency Bill.

Nor, I must say, do I consider that it would be wise for colleagues to approve the proposal in any case. As you will know from our earlier discussions in E Committee, a great deal of importance attaches to this legislation if the Government's decision on the closure and disposal of the gas showrooms is to be implemented, and if the public's concern on safety is to be fully met. I believe that any departure now from our decision to introduce legislation would not only be interpreted as a sign that we were wavering in our intentions, but might also be seen as a withdrawal of our earlier assurance (which, with the agreement of colleagues, I renewed when I spoke to the National Gas Consumers' Council on 15 September) that legislation would be introduced if the Government considered it necessary to meet the public's apprehension about safety. I accordingly hope that colleagues will concur in retaining the proposed legislation in the programme, as we had earlier agreed.

To the extent that choices will have to be made, I recognise the force of the manpower implications of the local government legislation to which Janet Young has referred in her letter. But I would ask colleagues to consider two important features of the legislation on gas appliances in addition to those I have set out above. First, the longer it remains off the statute book, the longer we must defer

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the considerable Exchequer benefits accruing from the disposal of the showrooms. Secondly, I believe that if the concessions are made which I have outlined in my letter of today to Nigel Lawson the legislation may prove a good deal less controversial than anticipated, and benefit from an easier passage through the House.

I am copying this letter to members of the Cabinet.

*Yours Ever*  
*Sally*

SALLY OPPENHEIM

CONFIDENTIAL



10 DOWNING STREET

Tim NBM 22/9  
S/S Energy to PM minute  
22/9 re: Gas legislation.

The FST's office rang.  
The HMT view is that  
this letter deals with a  
technical rather than central  
issue and is best resolved  
bi-laterally between Ch/Ex  
and S/S Energy. FST  
sees no need for PM to  
see it.

Steve  
23/9/8



cc J. J. J. J.  
A. D. D.  
A. W. W.

CONFIDENTIAL

PRIME MINISTER

GAS LEGISLATION

Geoffrey Howe's minute of 11 August suggests that legislation to implement the Government's decision on gas appliances and showrooms should include general powers to remove surpluses from the British Gas Corporation.

My predecessor's proposal, in his minute of 5 August, was that we should take powers to recover the proceeds from asset disposals regardless of whether they were surplus to the Corporation's requirements. It is important that we should be able to do this since a qualification to the circumstances in which such proceeds could be recovered would give the Corporation scope for legal argument.

In addition, the gas levy already removes the Corporation's surpluses and its rate can be varied in future should we find that necessary. Since the levy has been imposed on gas supplies, it also leaves the Corporation with incentives to efficiency which general powers to recover surpluses (a simple profits tax) would reduce. The Corporation's profits will, in any case, fall after the disposal of its oil assets, for which Geoffrey supported making allowance in drafting this bill. I propose to proceed with this disposal as quickly as possible, so as to obtain the substantial proceeds in 1982/83.

There is therefore no need for a third power to remove money from BGC.

I am copying this minute to the other members of E Committee, the



CONFIDENTIAL

-2-

Lord President, the Secretaries of State for Scotland, Wales and Transport, the Minister for Consumer Affairs, the Attorney General and Sir Robert Armstrong.

*NR.*

Secretary of State for Energy  
22 September 1981

CONQUEROR

*Wat Ind*

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

14 September 1981

The Rt Hon David Howell MP  
 Secretary of State for Energy  
 Thames House South  
 London SW1

cc PS/Mr Baker  
 PS/Mr Marshall  
 PS/Mr MacGregor  
 PS/Secretary  
 Mr Young  
 Mr Steele  
 Mr Manzie  
 Mr Dell  
 Mr Leeming  
 Mr Priston - on file

*David,*

MMC REPORT ON GAS APPLIANCES

Earlier this summer we corresponded about implementation of the MMC Report on gas appliance sales. The correspondence rests with Sally Oppenheim's letter of 10 August. I should like to return to the question of consultants.

2 I hope we are agreed that if disposal is to be a success it should be conducted in such a way as to minimise disruption to both consumers and manufacturers as well as to maximise revenue and to take into account the legitimate interests of management and employees in the Corporation. My concern is that the first two factors may not be given sufficient weight if we leave matters entirely to the Corporation.

3 Frankly I am worried that by choosing for early disposal sites in particularly vulnerable or sensitive areas (for example rural areas with no existing retailers), BGC could so mobilise public opinion against further disposals that the whole scheme will be made to look ridiculous. Alternatively, simple delaying tactics might make it very difficult for manufacturers and retailers to make their dispositions in a planned manner causing loss and suffering to all concerned including the consumers.

4 We have agreed that you should take powers to direct the Corporation to make disposals on such terms as you may require, and this should provide the scope for ensuring that all our objectives are achieved. I am not suggesting that we should necessarily devise detailed plans covering each and every showroom. But if we are going to lay down guidelines which are specific enough we will need the advice of management consultants to draw them up.

5 I do not believe that this proposal would involve any significant public expenditure, nor do I see that the unions, who are already hostile, are likely to be any more difficult because



of this proposal. I am sure we could frame the consultants' terms of reference to give an appropriate weighting to the legitimate interests of the unions. I hope therefore that you will reconsider the suggestion.

6 I am copying this to all Members of E Committee and to Sir Robert Armstrong.

*Yours ever,*

*Kew*

15 SEP 1981





Am - Am - Am 2  
This could make  
the Gas Bill still more  
difficult and

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

controversial:

Energy will be  
committing.

s/s Energy has  
no particular comment.  
12/8

PRIME MINISTER

GAS LEGISLATION

I have seen David Howell's minute to you of 5 August. I am content with his proposals for legislation to follow up our decision on gas appliance retailing and disposal of gas showrooms. In particular, I welcome his intention to legislate in a form which would facilitate the eventual privatisation of a company holding BGC's oil assets.

2. There is one refinement of David's proposals which I should like to suggest. It is clearly right to ensure that we should be able to transfer to the Exchequer the proceeds of showroom disposals. But as I pointed out in correspondence last year on the Gas Levy Bill, it is desirable that we should have available general powers to remove surpluses from the Corporation. This is in line with our recognition in response to PAC's Twentieth Report that there may be circumstances in which additional payments from a nationalised industry to the Exchequer would be appropriate. I accepted in my letter of 15 January that such clawback powers need not be taken in the Gas Levy Bill; but said that they should be taken next time there was general BGC financial legislation. Since the present legislation will inevitably touch on the relevant provisions of the Gas Act, I consider that this is the right time to take the powers.

3. I am copying this letter to others members of E Committee, to Francis Pym, Sally Oppenheim, Michael Havers and Sir Robert Armstrong.

(G.H.)

11 August 1981





DEPARTMENT OF ENERGY  
 THAMES HOUSE SOUTH  
 MILLBANK  
 LONDON SW1P 4QJ

2

NORMAN LAMONT ESQ MP

Direct Line 01-211 3390  
 Switchboard 01-211 3000

PARLIAMENTARY UNDER  
 SECRETARY OF STATE

*a Press Office*

*Prime Minister*

William Rickett Esq  
 Private Secretary to the  
 Prime Minister  
 10 Downing Street  
 London SW1

*MR*

10 August 1981

*Dear William,*

*To see.*

GMWU CAMPAIGN ON GAS PRICES AND THE LEVY

*R*

You will be aware of press reports last week that the biggest union in the gas industry, the GMWU, is launching a campaign against the Government's policies on domestic gas prices and the levy. Ministers might find the enclosed question and answer briefing helpful if they are approached about this.

*1/8*

I am copying this letter to the Private Secretaries of all Cabinet Ministers.

*Yours ever  
 Jeremy Clayton*

JEREMY CLAYTON  
 Private Secretary

DOMESTIC GAS PRICES AND THE LEVY

1. Q Why are Gas Prices rising so fast?

A There are four main reasons for the recent increases:

- (i) The British Gas Corporation (BGC) have made no profit on gas sales to the home over the last two years, and do not expect to make an adequate return on such sales this year even after recent price rises. The Corporation's profits have been coming very largely from their industrial consumers, many of whom pay substantially more for their gas than household consumers, despite the fact that it costs much more to supply gas to the home. Both the Government and the Corporation agree that this disparity between prices charged to industrial and household consumers could not be allowed to continue - hence the three year programme of adjusting household gas prices to a more realistic level.
- (ii) These low UK prices to the home - household consumers in France and Germany are already paying prices twice those in the UK, with further increases to come - have been based on cheap gas under contracts signed before the major increases in oil prices in 1973. The newer supplies which are now being phased in are up to 10 times more expensive, so increases are inevitable if BGC are not to make a loss.
- (iii) There is a problem over supplies. Household gas prices have risen by very much less than other fuels over the last few years, and by much less than the rate of inflation generally. This has resulted in a massive surge in the demand for gas which has far outstripped BGC's ability to supply. As a result there are 10,500 homes and 3,600 firms waiting for a supply who cannot get one. This problem is particularly acute at times of peak usage, bringing a real risk of shortages and supply cuts.
- (iv) Reserves of natural gas are limited; if prices, whether for home or industrial use, continued to be too low we should burn these up more quickly - there are already more people wanting gas than BGC can supply - and bring forward the day when we would have to turn to more expensive and less secure alternatives.

2. Q But isn't the period of adjustment too short?

A Despite increases in energy prices generally, gas prices to the home have in fact fallen in real terms by about a third over the last ten years. The increases at present planned will only bring the price of domestic gas back to the same relative position it occupied in 1970 - in the era of cheap energy. On strict economic grounds much

higher increases would actually be justified, but the Government recognised that the domestic consumer, who has been cushioned for so long from the real price of the gas he is using, needs adequate time to adjust.

3. Q What about disadvantaged groups?

A The Government recognises that adjustment to higher prices can bring serious problems for many consumers, especially the elderly and those on low incomes. We have therefore introduced a scheme - the most generous ever - which is bringing substantial extra help to those in most need, and provides the basis for continuing protection against fuel price increases. By next winter we will be spending over £250m a year on helping poor fuel consumers and some 2 $\frac{1}{4}$ m people will benefit from heating additions under the supplementary benefits scheme.

4. Q But isn't the new Gas Levy forcing up prices?

A The Gas Levy has had absolutely no effect on gas prices. BGC were already making large profits, and before the levy were lending the Government money surplus to its capital investment plans. The effect of the levy is to transfer such surplus funds to the taxpayer permanently.

The increase in BGC's profits beyond its own immediate requirements has been caused by the knock-on effect of the rise in world oil prices on other fuels and by the consequential rapid surge in demand for gas. BGC is not subject to Petroleum Revenue Tax on its purchases of cheap gas under old contracts. The levy is equivalent to PRT paid by the oil companies on newer gas supplies and oil production.

5. Q Levy "slipped quietly through Parliament" as GMWU allege.

A Nonsense. Gas Levy Act, which received Royal Assent in February this year, went through all the normal parliamentary stages. Proposals were fully publicised and discussed including extensive consultations with the Gas Corporation.

#### Background

1. BGC Profits. 1980-81 pre-tax profits of £381m; £156m after tax. Turnover £4,295m. Operating profit represented a return on net assets at current cost of 4%, compared with Government target of 3 $\frac{1}{2}$ %.

2. Recent increases in gas prices to the home.

1980	1 April	17%
	1 October	10%
1981	1 April	15%
	(planned) 1 October	10%

3. Comparative prices. Rise in gas prices has lagged well behind the RPI. Taking January 1971 as 100, by January 1981 RPI had risen to 361, whereas gas rose to only 278.
4. Gas is proportionally less of family budget. The proportion of a married couple's old age pension spent on enough gas for a cooker and living room fire has fallen from 10% in 1968 to about 5%. Similarly an average family (using 1,200 therms a year) would spend about 5% of today's average weekly wage on gas, compared to  $7\frac{1}{2}\%$  in 1968.

CONFIDENTIAL

*A. Duguid,*  
*A. Walker,*



DEPARTMENT OF TRADE  
1 VICTORIA STREET  
LONDON SW1H 0ET

*Nat*  
*hd*

TELEPHONE DIRECT LINE 01 215 5662  
SWITCHBOARD 01 215 7877

From the  
Minister of State  
for Consumer Affairs

The Rt Hon Sally Oppenheim MP

The Rt Hon David Howell MP  
Secretary of State for Energy  
Thames House South  
Millbank  
London SW1

*R 157 8*

10 August 1981

*D. Howell*

MMC REPORT ON GAS APPLIANCES

Thank you for your letter of ~~4~~ August. I am also grateful for Keith Joseph's letter of ~~30~~ April.

I am glad that you are able to agree with most of the points which I raised in my letter of ~~16~~ July. I take the point that the Government cannot monitor the disposal of each and every showroom; indeed my letter of 16 July was not intended to convey this suggestion. What I said, and what I still have in mind, is that the Government should set policy guidelines for the corporation in carrying out disposals. To my mind this is not inconsistent with your intention to make clear to the corporation the way in which our decisions should be implemented.

There remains the question of commissioning management consultants or estate agents. As I wrote in my letter of 16 July I believe (and indeed I would expect the corporation to agree) that a large programme of sales of this kind will need to be handled by expert agents who are specialists in their field and in particular localities. As regards the additional use of management consultants, I note Keith's view that they could be a useful source of advice on the best means of putting the programme in hand; but I agree that this is a matter for you to decide in the light of your own views on how best to exercise your powers of direction and establish a framework within which your officials can deal with British Gas on these issues.

I am copying this letter to all members of E and to Sir Robert Armstrong.

*J. - Mac -*  
*Sally*

- cc PS/SOS
- PS/SEC
- MR KNIGHTON
- MR EAGERS
- MR BENTLIFF
- MISS O'FLYNN
- MR COOKE on file

SALLY OPPENHEIM

MEMBERS OF E  
SIR ROBERT ARMSTRONG

CONFIDENTIAL

Final  
**CONFIDENTIAL**

R H

Nad Ind

cc:- E Cttee  
C. Duchy  
Consumer Affairs  
Attorney-General

CO

7 August, 1981

Gas Showrooms

The Prime Minister has considered your Secretary of State's minute of 5 August, and is content with his proposals.

I am sending copies of this letter to the recipients of yours.

J West, Esq  
Department of Energy

**CONFIDENTIAL**

BIC

CONFIDENTIAL

CABINET OFFICE  
E 0258  
6 AUG 1981  
FILING INSTRUCTIONS  
FILE No. ....

- 1. MR WRIGHT
- 2. MR LANKESTER

cc Mr Gregson  
Mr Harris

Prime Minister

Content with Mr Howell's proposals?

Yes not

12/48

GAS SHOWROOMS

Plus A

In his minute of 5 August the Secretary of State for Energy invites the Prime Minister and other Ministers to agree with his proposals for taking powers to enable him to direct the British Gas Corporation to dispose of assets and hand over the proceeds to the Government. Although the immediate purpose in taking these powers is to give effect to the Government's decision to require BGC to cease appliance retailing and to dispose of their showrooms, they will be drafted in general terms and will enable the Secretary of State to direct other disposals, including BGC's oil assets. The Secretary of State will also work out with the other Ministers concerned the most effective way of taking powers to ensure that the safety standards are maintained.

2. There is nothing new here. At one stage it had been thought there was a small chance that BGC would climb down once they realised the Government was determined to go ahead with these disposals, and accepted direction under present powers. It soon became clear that they would not and it was accepted that primary legislation was necessary. When Cabinet discussed the 1981-82 legislative programme on 30 July (CC(81)30th Conclusions) they accordingly approved the addition to the programme of a Bill to compel the BGC to dispose of their gas appliance retailing interests, and invited the Secretary of State for Energy to use his best endeavours to ensure that such a Bill could be ready for introduction before the Christmas Recess. (Item 5, Conclusion 2).

3. The Secretary of State for Energy's present proposals are fully in accordance with the Cabinet's decision. Unless any Ministers now find spanners to throw into the works there should be no need for the Prime Minister to intervene. The important thing is to get ahead as quickly as possible to ensure that the Bill is ready for introduction by Christmas as Cabinet wished.

D J L MOORE.  
6 August 1981

CONFIDENTIAL

pm +  
TL  
seen



✓ Mr. Vereker  
Mr. Duguid  
Mr. Walters

Prime Minister

Following the remit from 'E' on 23 June I have consulted the British Gas Corporation about our decision to require them to cease appliance retailing and dispose of their showrooms. I told them that we were prepared to take primary powers to achieve this but were considering whether it would be appropriate to give the Corporation a direction to this effect under Section 7(2) of the Gas Act 1972. Under this section I am required to consult the Corporation and am precluded from issuing such a direction unless I am satisfied that in so doing I would not impede them in the performance of their statutory duties.

In their reply the Corporation argued that such a direction would impede them in the performance of their duties because it would seriously affect their ability to provide a wide range of services without affording any alternative means for their provision. In particular, they pointed out that 80% of the functions of the showrooms were not directly concerned with appliance retailing and that the showrooms were a network of centres for advice, enquiries, service and the payment of accounts for millions of customers.

In these circumstances I do not believe I could satisfy myself that in serving a direction on them to dispose of their showrooms, I would not be impeding them in the performance of their duties. The Corporation also believe that if the Government proceeds by direction only, safety standards for appliances and for servicing and installation would be left exposed until alternative requirements could be planned, and legislation to implement them enacted.

I have concluded, therefore, that if we are to implement our decisions on their appliance retailing activities and their showrooms, and to meet the assurances on safety and service to the consumer given by the Minister of State for Consumer Affairs, we must proceed by way of primary legislation. I recommend, therefore, that we should seek powers in the 1981/2 Session of Parliament to allow me to direct the Corporation to dispose of assets in the national interest on such terms as I may require. I also recommend that we should take powers which will enable the Government to obtain the proceeds from such sales of assets regardless of whether they are surplus to the Corporation's requirements. These powers would enable us to proceed with our decisions on appliance retailing and also with my plans to transfer their oil assets into a subsidiary company in which shares





could be made available to the public.

I also recommend that we should take the necessary powers to ensure that safety standards are maintained and my officials and those of the Departments of Trade and Industry are already working on detailed proposals to this end. I am examining, as agreed in Cabinet last week, the extent to which these measures might be achieved by legislation enabling us to make regulations later rather than by detailed provisions in the Bill. If you and colleagues agree, I will work out the detailed safety proposals with the Secretaries of State for Trade and Industry and with the Chancellor.

I should be grateful for colleagues' agreement to these proposals.

I am copying this minute to other members of 'E', to Francis Pym, Sally Oppenheim, Michael Havers and Sir Robert Armstrong.

DA  
5

Secretary of State for Energy  
5 August 1981

cc A. Douglas  
A. Walters  
J. Verker

Not incl

FRANKS & REE  
MILBANK LODGERS 57/111

01 211 6402

Rt Hon Sally Oppenheim MP  
Minister of State for  
Consumer Affairs  
Department of Trade  
Victoria Street  
London SW1

4 August 1981

*Sally*

*R  
5/8*

MMC REPORT ON GAS APPLIANCES

Thank you for your letter of 16 July on your views on the structure of the programme for implementing our decision on British Gas's appliance retailing activities and their showrooms. I have also just seen a copy of Keith Joseph's letter of 30 July to you.

I entirely agree that we should press ahead as quickly as possible with implementing our decision. I have now consulted British Gas about the possibility of proceeding by a direction under the Gas Act 1972 and will be reporting my conclusions, which are that we will need to proceed by primary legislation, separately. We are, of course, proceeding with all due haste in preparing proposals on this but inevitably the need for primary legislation will lead to some delay.

As you recognise, I will also have to proceed with caution in ensuring that your undertakings on safety, convenience to the consumer, and the manufacturers' interests, as well as your assurance on employment, can be met. We have already had a strike in response to our decision and I would not wish to provoke further action through injudicious moves on our part.

On the question of safety, as you know, our officials and Department of Industry officials have already met to consider the best way to deal with this problem. Like you, I am inclined to conclude that we will need to establish a statutory body responsible for monitoring installation standards. It may be that we can achieve this by putting CORGI on a statutory basis, but I suspect we may have to do slightly more. We are, of course, pressing ahead with consideration of this issue.

Finally, I intend to make it clear to BGC that our decisions should be implemented in a way which would not inconvenience the consumer generally, and that they should maintain customer contact points. But I cannot accept your implicit suggestion that we should monitor the disposal of each and every showroom. Nor

can I accept Keith Joseph's suggestion that we should intervene in the management of the operation by commissioning management consultants and estate agents. This would be unnecessary additional public expenditure and would make implementation with BGC'S unions more difficult. Of course my department will monitor BGC's progress in implementing our decision. But the most efficient course is to leave BGC to implement our decisions having made clear the factors we wish them to take into account (including the need to maximise the commercial proceeds). They have the management and the expertise to do this. A Government Department does not.

I am copying this letter to all Members of "E" and to Sir Robert Armstrong.

*Yours*

D A R HOWELL

*David*

CC Mr. Walters  
Harkyns  
Wolfe



CONFIDENTIAL

Qa 05650

To: MR LANKESTER

From: J R IBBS

3 August 1981

MISC 56 - Industrial Electricity Prices

1. Tomorrow morning the Prime Minister is due to hold a meeting to consider again the case, set out in the Secretary of State for Industry's minute dated 27 July, for a general scheme to provide a 10 per cent rebate for one year on the bills of those industrial consumers who have an annual maximum demand of at least 1 MW and an annual load factor of at least 50 per cent, or 30 per cent load factor for steel firms.
2. The scheme has obvious difficulties both in its cost to the Government (£80-90m.) and the likely reaction of the European Commission. However, there is still much pressure from industry for action on prices, particularly from those sectors which are heavy users. Whether or not a scheme on these lines should be provided as some immediate easement of their problems seems to me to be a political judgement. 10 per cent rebate for one year, while better than nothing, will not solve the fundamental problem for the heavy users but it should reduce the volume of complaint.
3. When this matter was last discussed, the CPRS put in a collective brief drawing attention to the fact that if energy intensive businesses based on electricity were to be kept in the UK there would have to be, in addition to any immediate scheme, prospects that long term electricity prices would be reasonably competitive at least with the average of those in other developed countries. For this to be achieved action would be needed now to bring about substantially lower long term electricity costs. In practice this would mean action on the price of coal and on the rate of growth of nuclear power. In a separate minute to you dated 9 June I emphasised my belief that the consequences of not eventually catching up and having low cost electricity are potentially serious. This is still my view.



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4. Since June the CPRS has produced a report on the NCB/NUM problem and this is also due to be discussed later tomorrow. The analysis in the report is discouraging in that it reveals no means of at all quickly changing the balance of power currently in favour of the miners and it draws attention to the difficulties facing achievement of even present plans for nuclear power. Nevertheless, the importance of overcoming the coal problem, and in my view of working determinedly towards lower electricity costs, means that every possible step that might help should be taken. Immediately the key need is to find the right man as the next Chairman of the NCB and to give him every assistance in moving to a position where miners generally recognise that an efficient industry is in their long term interests (paragraph 47 of our coal report). At the same time the moves already made to sort out the difficulties delaying nuclear plans should be given maximum support so that if these plans begin to look like being achieved consideration can then be given to stepping them up.

5. I am sending a copy of this minute to Sir Robert Armstrong.

JR/



Ref. A05375

PRIME MINISTER

Industrial Electricity Prices

## BACKGROUND

At their meeting on 10 June the Ministerial group on energy prices (MISC 56) agreed that a new general scheme of assistance with industrial prices should not be introduced, and invited the Secretary of State for Energy, in consultation with other Ministers where appropriate, to make proposals as necessary to reduce the prices charged to particular firms for their electricity supplies (MISC 56(81) 3rd Meeting, Item 1). In your summing up of the discussion, you said that the group were willing to consider some short term assistance to particular firms or plants in key sectors which were vulnerable to high electricity costs, and you noted that the Secretary of State for Energy judged that the cost of support in a few such cases might be in the order of £20 million. You were particularly concerned that assistance should be given at ICI's chlorine plant at Runcorn and that something should be done for private sector steel firms, notably Sheerness. At the same meeting the group agreed to action, which has now been implemented, to reduce foundry coke prices and they ruled out proposals for stimulation of industrial investment in energy conservation.

2. In his minute to you of 27 July, the Secretary of State for Industry reports that he and the Secretary of State for Energy have failed to conclude any one-off deals for selected firms, including ICI's Runcorn plant where negotiations had been thought to be well under way. The difficulty seems to be in part legal problems of undue preference under United Kingdom legislation, in part European Community constraints, and in part the Secretary of State for Industry's objections to picking and choosing a handful of beneficiaries on the basis of arbitrary criteria.

3. Given the failure to agree on selective help, the Secretary of State for Industry now proposes that a general scheme, on the lines of that previously rejected, should be introduced. In his minute of 31 July the Chancellor of the

Exchequer opposes this on grounds of costs and of EC objections; in his minute of the same date, the Lord Privy Seal also points to EC difficulties in securing agreement to aids of this sort and in trying to do so at a time when the United Kingdom is trying to encourage the Commission to apply the provisions of the Treaties vigorously in dealing with aids and to secure economic pricing of energy.

4. The general scheme (paragraph 10(iii) of MISC 56(81) 6) involved a 10 per cent discount to all consumers with a maximum demand of over 1 megawatts and 50 per cent load factor (a 30 per cent load factor for firms in the iron and steel sector). It was intended to provide help for a good number of firms in the key industrial sectors identified as particularly vulnerable to high electricity costs: chemicals, iron and steel, paper and board, and textiles. It was tailored to ensure that assistance would also go to the smaller private sector steel firms using the electric arc process. In paragraph 4 of his minute the Secretary of State for Industry says that the present estimate is that 800 plants would be eligible for assistance and that this would cost between £80 million and £90 million, assuming that it operated for one year only.

5. MISC 56 previously ruled out this scheme because:

- (i) It would be a substantial claim on the contingency reserve in the first year of operation and it was implausible to think that it could be switched off after one year.
- (ii) Apart from Community objections, it would require domestic legislation if it were to run for more than one year.
- (iii) It was questionable whether it would do the political trick of bringing current criticism to an end: although it would satisfy some beneficiaries it would be resented by others as insufficient or as not helping them at all.
- (iv) It was thought better to wait until the NEDC considered the next report of the task force on energy prices in November and to take account of changes in the meantime in exchange rates and possibly in oil prices.

The Chancellor of the Exchequer and the Lord Privy Seal think that these objections still stand. The Secretaries of State for Industry and for Energy are likely to argue that, notwithstanding the objections, there is no doubt that

companies are still exerting strong pressure on the Government for action; there have not been marked changes in sterling against either the deutschemerk or the French franc, which are the currencies that count in this discussion.

6. Before either accepting that a general scheme should after all be introduced or ruling out any assistance, the group will probably want to probe further to establish whether some selective action could be taken. There seem to be two main possibilities:

- (i) A discount on the electricity bills of selected firms which would be paid directly by the Government under the powers of the Appropriation Act, assuming the assistance was for less than one year, and which would not offend against the requirements on the coal and electricity industries not to exercise undue preference.
- (ii) Finance under Sections 7 or 8 of the 1972 Industry Act, designed to help particular firms suffering from high electricity prices but not advanced specifically for that reason.

Assistance in either of these ways could not be given entirely covertly, and further thought would have to be given to the problems of overriding Community objections. Neither would avoid the difficulty of selecting beneficiaries but, as the group accepted last time, selection is necessary if a limited amount of financial help is to be made available to a limited number of plants or companies in key sectors.

7. MISC 56 was set up in April and, although very little has been achieved so far, the ground is well trodden. Your aim tomorrow will be to give a firm steer before the holidays either to a general scheme, or to a selective approach, or to dropping the idea of assistance altogether. If there is to be some form of assistance you will want to give instructions for the details to be worked out urgently including the best ways of overcoming the difficulties with the Commission.

#### HANDLING

8. You might first ask the Minister of State, Department of Industry (Mr Tebbit) and the Secretary of State for Energy to put their case for re-opening the group's decision against a general scheme. The Chancellor of the Exchequer





and the Lord Privy Seal will then wish to explain the public expenditure objections to this and the European Community problems involved in either a general or a selective approach.

9. The main questions you will wish to cover seem to be:

- (i) Subject to overcoming EC problems, what is the scope for helping selected firms by:
  - (a) Direct Government subsidy of their electricity bills under the powers of the Appropriation Act?
  - (b) Assistance under Section 7 or 8 of the 1972 Industry Act?
- (ii) If there are overriding objections to a selective approach, and again subject to overcoming EC difficulties, should a general scheme now be accepted?  
The main objections are the cost and the fact that it would by no means satisfy all those firms which think they need help on this score.
- (iii) Should the whole idea of assistance on industrial electricity costs be dropped?

#### CONCLUSIONS

10. In the light of the discussion you will wish to record conclusions on which of the three broad solutions listed above the group now endorses in principle.

11. If they agree either to a general scheme or to a selective scheme, or to keeping both options open for further examination, you will wish to invite the Minister of State, Department of Industry, and the Secretary of State for Energy, to arrange for their officials, in consultation with those of the Foreign and Commonwealth Office and of the Treasury, to work out a detailed scheme and, in particular to consider how best to deal with the European Community problems. You will wish to give them authority to consult, as necessary, both the Commission and the electricity supply industry.

ROBERT ARMSTRONG

3 August 1981

CF. From for  
11.15 mtg Tuesday  
R.



✓  
Mr Verker  
Mr Walter  
Mr August

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

PRIME MINISTER

INDUSTRIAL ELECTRICITY PRICES

I have seen Keith Joseph's minute of 27 July to you. TPM

2. Clearly a highly selective approach offering assistance to a handful of companies would raise great, perhaps insuperable, difficulties. However that does not provide grounds for reversing our earlier decision against a more general scheme. The latter too would be hard to justify to the European Commission and to the many companies which it would not assist or would not satisfy. Even a 12 month scheme would be expensive and would represent a substantial call on the Contingency Reserve which is under great pressure. Moreover it is unrealistic to think that the scheme could be terminated readily at the end of a year given that international disparities in electricity prices are likely to continue for some time.

3. These arguments convinced us last month that we should not pursue the possibility of introducing a general scheme and, in my view, they remain decisive today.

4. I am sending copies of this to other members of MISC 56, to the Foreign Secretary and to Sir Robert Armstrong.

(G.H.)

31 July 1981



Nul 2d

Secretary of State for Industry

## INDUSTRIAL ELECTRICITY PRICES

R  
27

I have seen your minute of 27 July to the Prime Minister. I appreciate the pressures which are building up for some form of rebate for intensive electricity users. But, as your minute recognises, there is a potential Community problem. The scheme we put forward must meet our Community obligations.

2. On the basis of the information in your minute, it is difficult to see how any scheme would not be classified an aid in the terms of the EEC Treaty, particularly if there were a direct Government rebate to an individual firm. Approval for such a scheme would be open to challenge unless carefully prepared and perhaps cleared informally with the Commission first. We need to bear in mind that under Article 93.3 EEC, any aid should first be cleared with the Commission, and that failure to do so and an eventual adverse judgement against us could require a repayment of any subsidies. We could also be open to criticism if we were to take legal powers over which there were clear doubts whether our use of them was consonant with our Community obligations.

3. Our general position on aids is to encourage the Commission to apply the provisions of the Treaties vigorously. On the whole we judge our own practice defensible and consider that the UK has more to gain from securing changes in other Member States' practices and making them more transparent. During his visit to the United Kingdom

/last



last week, we encouraged Commissioner Andriessen to secure greater notification of aids by Member States and stricter enforcement of the Treaties. The prospect of aid to steel companies raises particular problems, given that the Steel Council on 24 June approved a revised Steel Aids Decision whose objective is to phase out specific aids to the steel industry. We should think carefully before introducing new aids to benefit this sector.

4. We also need to consider whether subsidies can be reconciled with our efforts in the Community to secure economic pricing of energy. At our instigation the Commission is to produce a report on energy pricing in Community countries. We would be seriously embarrassed if this report coincided with the introduction by the UK of a substantial scheme of energy subsidy.

5. In view of the above, I hope you might agree that officials should look in more detail at the Community aspects before this is taken any further.

6. I am copying this minute to the Prime Minister, to Members of Misc 56, and to Sir R Armstrong.

I.H.G.

31 July 1981

cc ADuguid  
A Walters  
J Verker

Next



Secretary of State for Industry

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

30 July 1981

The Rt Hon Sally Oppenheim MP  
Minister of State for Consumer Affairs  
Department of Trade  
1-19 Victoria Street  
London SW1

Dear Sally,

R  
25/7

## MMC REPORT ON GAS APPLIANCES

I have followed with interest the correspondence on this matter, in particular your letter of 16 July to David Howell. A point which does concern me, and is touched on in that letter, and in my view merits further consideration is the manner of the disposal of the gas showrooms.

2 Given the BGC's stated opposition to the disposal of the showrooms there is a danger that they may not carry out the disposals in the most logical manner. For example, BGC could cause embarrassment to the Government by removing first showrooms in those areas which in the short term would cause the most inconvenience to consumers. In order to overcome this problem and speed things up generally I would like to suggest that a firm of management consultants together with estate agents be commissioned by the Government to draw-up carefully considered plans for a constructive disposal. The aim would be to maximise revenue, while minimising the disruptive effects on both consumers and manufacturers. The consultants' plans, including a specific timescale for implementation, could then be put to BGC with instructions that they proceed in good time for the new legislation.

3 Perhaps I could have your views and those of colleagues on this suggestion. For this purpose copies of this letter go to all members of E and to Sir Robert Armstrong.

Yours,

Kear

CONFIDENTIAL

Ref. A05351

PRIME MINISTER

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British Gas Corporation's Monopoly

(E(81) 80)

In E(81) 80 the Secretary of State for Energy sought policy approval of measures, for inclusion in the proposed Gas (Industrial and Commercial Supplies) Bill, to reduce the British Gas Corporation's (BGC's) control over the supply of gas.

2. He has now, in his letter of 27th July to the Chancellor of the Duchy of Lancaster, offered to withdraw these measures in order to reduce the pressure on the 1981-82 legislative programme; instead he wants to publish a White Paper indicating the Government's intention to legislate in the 1982-83 Session and to invite public discussion on the best way forward. He still wants to go ahead with the legislation to give effect to the decision that BGC should cease their retailing activities and dispose of their showrooms.

3. If this is accepted - either in correspondence or in Cabinet's discussion of the legislative programme on Thursday - it will not be necessary for E to discuss E(81) 80 on Friday (when there is already a heavy agenda). The Secretary of State for Energy could put forward further proposals and his draft White Paper after the Recess; in the meantime, any Ministers who had points of substance on the proposed approach could write to him.

4. If on the other hand it were decided to press ahead with the legislation in 1981-82 for policy reasons, you might draw on the following brief in discussion in E.

BACKGROUND

5. BGC has an almost complete statutory monopoly over the purchase, distribution and sale of gas in the United Kingdom (including the purchase of off-shore gas). The Secretary of State for Energy argues that BGC's monopsony discourages the exploration and development of offshore gas, gas manufacture and the import of liquefied natural gas; and that its monopoly has allowed it to subsidise domestic gas supply at the cost of industry. He believes that the Corporation has also been freed from the need to increase its internal efficiency.

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6. The Secretary of State for Energy proposes that:
  - (a) BGC should no longer have first option on the purchase of gas found onshore or offshore or its supply for industrial fuel purposes (the basis of its monopsony and monopoly).
  - (b) BGC should be required not unreasonably to refuse to transmit private sector gas through its pipelines.
  - (c) The Secretary of State should be empowered to regulate disputes about BGC's carriage of private sector gas - as a first step towards setting up a separate regulatory agency.

BGC's monopoly of supply to domestic consumers would be preserved.

HANDLING

7. After the Secretary of State for Energy has introduced his paper the Committee will wish to hear the views of the Chancellor of the Exchequer and of the Minister of State in the Foreign and Commonwealth Office (Mr. Ridley) on the European Community implications.

8. You might then focus the discussion on the following questions, some only touched upon in the paper.

- (a) How do the proposals in E(81) 80 fit in with and affect decisions on the Gas Gathering Pipeline (GGP), which will be discussed at a meeting you are to chair on 3rd August, and on depletion policy, on which the Secretary of State for Energy is to put proposals to colleagues in the autumn? You will want to avoid a full-scale discussion of either of these questions; but to establish whether the Secretary of State's present proposals close any options on the GGP or depletion.
- (b) What are the European Community implications of what is proposed? Paragraph 7(b) of E(81) 80 suggests that removing BGC's monopoly and monopsony might lead to challenges to the statutory requirement that gas from the United Kingdom continental shelf be landed in the United Kingdom. If so, could the landing requirement be defended as compatible with Community obligations? If not, would it be necessary to permit the export of gas; and could that be in any respect undesirable?

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- (c) What are the implications of the Secretary of State's proposals for domestic gas prices? Paragraph 7(b) of E(81) 80 refers to resource gains from the Secretary of State's proposals. It appears that these might arise as a result of BGC's being constrained by lower margins on industrial gas supply and higher offshore gas prices in general to raise domestic gas prices more than would otherwise have been the case.
- (d) Is it necessary to retain BGC's monopoly over domestic supply? The Secretary of State adduces economies of scale and considerations of safety and security of supply as the reasons: but do not the same considerations apply as much to non-domestic use, where he proposes that the monopoly should be abolished?
- (e) Is the Secretary of State's reference to the need for at least eight to ten additional staff to regulate BGC's common carrier functions (paragraph 8 of E(81) 80) a request for a relaxation in the Department of Energy's manpower ceilings? If so, do colleagues agree?

#### CONCLUSIONS

9. You will want to record conclusions on whether the Committee is content that the Secretary of State for Energy should proceed with the Gas (Industrial and Commercial Supplies) Bill on the basis he proposes in E(81) 80 and on any points of substance arising from discussion of the questions in paragraph 8 above. If there is general agreement but particular points of difficulty still have to be resolved, you will want to invite the Ministers concerned to pursue them outside the Committee.

28th July, 1981



ROBERT ARMSTRONG

*(Approved by Sir R. Armstrong  
and signed on his behalf)*

**CONFIDENTIAL**



de Walters  
Hoskyns.  
Wapan

For Cabinet folder  
MA 25/100

also copied to  
Parliament  
Legislation.

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

Rt Hon Francis Pym MC MP  
Chancellor of the Duchy of Lancaster  
and Paymaster General  
Privy Council Office  
Whitehall  
London SW1

27 July 1981

Dear Francis

GAS LEGISLATION: SESSION 1981/82

It might be helpful if I set out the background to the suggestion I made about gas legislation at our meeting this morning.

Colleagues have agreed that it is desirable to break the monopoly of British Gas over the purchase, transmission and sale of gas in the UK. This would result in greater competition, encourage more exploration and hence availability of gas supplies. As a result the pressures on BGC to improve its efficiency would be increased. If, however, we are to reap the full benefits of this change, we need also to ensure that BGC's transmission system is open to the private sector.

I am in a position to bring forward in the next session a Bill aimed at breaking BGC's monopsony/monopoly position. A number of complex issues are involved, including:

- (a) Whether the breaking of the monopsony/monopoly should be confined to industry or extended to large commercial and local authority users. Difficult problems of definition are involved.
- (b) Whether BGC's existing statutory duties need to be modified.
- (c) The extent of the regulations or the regulatory agency that will be necessary to ensure that BGC do not frustrate the new arrangements by impeding access to their transmission system.

While I have formed a view on these points, I have also taken account of the pressures on the legislative programme. Rather than attempt to proceed next Session with far reaching legislation, I propose that we publish a White Paper which would indicate our intention of legislating in the 1982/83 Session to end the present position, but inviting an informed public discussion of the best way of proceeding.

This would ease the pressures on the legislative programme for the next Session. We have announced our intention that BGC should cease retailing and dispose of their showrooms and it is clear from advice I have received that legislation to effect this change will be necessary. Colleagues will wish to follow up our statement on showrooms with the necessary legislation as soon as possible. This can be ready by February 1982.

I believe that proceeding in this way, with legislation on showrooms and a White Paper on the monopoly/monopsony, would commend itself to our supporters. We would be showing determination to cut down the size of British Gas by adding the disposal of showrooms to the step we have already taken in requiring the Corporation to sell Wytch Farm. And the publication of a White Paper would demonstrate our intent to make more fundamental changes in the Corporation's future role.

I am copying this letter to Cabinet colleagues, the Chief Whip and Sir Robert Armstrong.

D A R HOWELL

*Howell*  
*David*



PRIME MINISTER

INDUSTRIAL ELECTRICITY PRICES

At its meeting on 10 June under your Chairmanship, the Ministerial Group on Energy Prices (MISC 56(81)3rd) invited the Secretary of State for Energy, in consultation with other Ministers where appropriate, to make proposals to reduce the prices charged to particular firms for their electricity supplies.

2 The Secretary of State for Energy and I have been considering which candidates of the many who have called for assistance would deserve help on this selective basis. I am convinced that the selection of only a handful of companies or plants, on the basis of inevitably arbitrary criteria, would be indefensible to the public and, more particularly, to the competitors of those companies which received help. There could be no guarantee that the assistance would be kept confidential; indeed the discussions which have been taking place with ICI have already received publicity. This has prompted enquiries from other companies, who see no difference between their own claims for help and those of ICI.

3 Further examination of the MISC 56 proposal for 'one-off' deals has also brought out legal problems in the areas of restrictive trade practices/competition legislation, undue preference contrary to the Electricity and Coal Acts and both the state aids and anti-competitive practices provisions of the Treaty of Rome. In practice these problems must rule out the 'cheap coal' route under which either the NCB would sell a tranche of cheap coal to the CEBG earmarked for a particular customer or the customer would purchase cheap coal from the NCB and invite the CEBG to convert it into cheap electricity. A direct Government discount from an individual firm's electricity bills would not give rise to the same difficulties under UK law, but there would still be EC difficulties, apart from the problems set out in para 2.

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Prime Minister  
I am afraid this can only be resolved by a further meeting of MISC 56 under your chairmanship. I suggest we do this on Tuesday morning after the meeting on the CPAS report on the nationalised industries.

*Mr. Walters*  
*Mr. Hodgson*  
*Mr. Britton*

*Treasury*  
*Yes*

*Agree?*

*TL*  
*20/7*



4 The Secretary of State for Energy and I have come to the conclusion that, if the Government are to help bulk intensive electricity users who are at a competitive disadvantage with continental firms, we need to reconsider the temporary implementation of a more general scheme along the lines of that recommended in MISC56 (81) 6. This proposed a 10% rebate on the bills of all industrial consumers with an annual maximum demand of at least 1 megawatt (MW) and an annual load factor of at least 50% or 30% load factor for steel firms. On the basis of 1980/81 electricity consumption data we estimate that in England, Scotland and Wales the scheme would benefit 67 plants in the chemicals sector, 70 in iron and steel, 46 in textiles and 75 in paper. Over 800 plants would be eligible under the scheme which would cost between £80 million and £90 million over the year the scheme would operate. Such a scheme is not expected to encounter difficulties in UK legislation and the temporary nature of the scheme - assistance would be given for one year only - may enable us to circumvent the EC difficulties. (It would be open to challenge, certainly under the state aids and possibly under the anti-competitive practices provisions of the Treaty).

5 It should be borne in mind that a 10% discount, whilst of undoubted help to many firms under severe cost pressures, is less than many of these firms say they require. It is possible that selective assistance in some form or other would still be sought in individual cases.

6 We as a Government need to decide urgently what assistance can be given to large industrial users. There is growing pressure from many large users, including ICI and Sheerness Steel, both of which would stand to benefit under the general scheme, and we need to tell them as soon as possible what the Government have in mind. The Secretary of State for Energy and I invite our colleagues to agree urgently in principle that a general scheme should be implemented. Consultation with the European

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Commission, whose approval would be required, and with the electricity supply industry could then be set in hand and a final decision on the scope of the scheme taken in the light of those consultations.

7 I am copying this minute to the other members of MISC 56, to the Foreign and Commonwealth Secretary and to Sir Robert Armstrong.

KJ

K J

27 July 1981

Department of Industry  
Ashdown House  
123 Victoria Street

CONFIDENTIAL



DEPARTMENT OF TRADE  
1 VICTORIA STREET  
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01 215 5662  
SWITCHBOARD 01 215 7877

From the  
Minister of State  
for Consumer Affairs

The Rt Hon Sally Oppenheim MP

Mike Pattison Esq  
Private Secretary  
Prime Minister's Office  
10 Downing Street  
London SW1

22 July 1981

Dear Mike,

... Mrs Oppenheim has suggested that the Prime Minister should be aware of the enclosed newsheet, about the Government's decision to require the British Gas Corporation to withdraw from the retailing of gas appliances, issued by the gas industry unions.

Yours ever,

Peter McCarthy

PETER McCARTHY  
Private Secretary

# Gaspoint

SPECIAL CRISIS ISSUE

Be on your  
**GUARD**

THIS SPECIAL issue has been financed by personal donations by members of the General and Municipal Workers Union (manual and clerical sections), the National and Local Government Officers Association, the Confederation of Shipbuilding and Engineering Unions, and the Transport and General Workers Union at the North Thames Gas Central Stores and Transport complex in Bromley-by-Bow. Up to 500 jobs are threatened at our depot alone by government plans to hive off part of the Gas Board to private enterprise.

# Gas — another sellout!

**What the great gas sale will cost YOU...**

If British Gas is forced by government to cease selling gas appliances: Gas showrooms will close, cutting off customers from their main service contact point;

The market will decline forcing manufacturers to close down, with consequent loss of jobs, services and supplies;

Charges to customers would rocket because of the profit motive, and extra charges would be likely if British Gas had to service appliances;

The risk of potentially lethal installations by "cowboy" firms would escalate;

Customers would be put at risk by the collapse of private companies, and British Gas could become a drain on the public purse if it lost its most profitable section;

Safety levels generally would certainly decrease, along with the research and development and work which has been pioneered by British Gas;

Expertise apprenticeships and in-service training which has been the hallmark of British Gas would be lost, as would the benefits of a labour intensive industry;

The extensive telephone network operated throughout the industry would disappear with the showrooms, reducing efficiency and our ability to cope with emergencies.

As can be seen, there is a real risk that having off our retail trade might lead to the sort of situation faced by many continental gas consumers. Imagine the delay, the cost and the frustration which this causes. All the more reason for you to express your concern at the government's proposals.

**Unions plan fight for jobs**

THE GOVERNMENT is all set to break up British Gas.

Consumer Affairs Minister Sally Oppenheim wants to close down or sell off gas showrooms throughout the country, despite protests from Gas Corporation Chairman Sir Dennis Rooke, gas workers unions, and Labour members of parliament.

Workers in the industry fear that up to 30,000 jobs may be lost nationwide, with another 15,000 going in ancillary industries.

Unofficial action by gas workers is certain as the full impact of the Government's plans is realised and meetings are to take place between all the unions involved to plan a united campaign of opposition.

Union members fear that it will be more than their jobs which are at risk. They warn that safety standards and the already over-inflated price levels faced by consumers will be adversely affected by handing over the Gas Corporation's retail trade to private enterprise.

DANGER to the family from lower safety standards and badly-installed gas appliances is feared as de-nationalisation of the industry nears 'D-day'.

Natural gas is a safe fuel for the home, but like any combustible substance it must be used responsibly.

That is why British Gas provides a subsidised safety service for all its customers.

Private dealers are unlikely to offer such a subsidy, and their higher costs and lower standards are bound to result in danger to life and limb.

Accidents do not figure on balance sheets, and with profits as their motive rather than a sense of social responsibility, private suppliers could be bringing death into your home.



This may be the last of your handy gas showroom — if the government has its way.

## DEATH IN THE HOME

**Watch out — there's a dealer about!**

In the four years from 1976-80, of the 200-plus accidents caused by poor combustion or installation problems with gas fires, almost all resulted from private installation.

An even higher percentage of accidents with water heaters was recorded among those installed by private dealers and in the same period there were 227 serious incidents involving gas central heating.

Yet the Monopolies Commission saw no safety problems with gas central heating because most of these installations were not carried out by British Gas, and is recommending that private dealers should be the ones to handle all these standards are kept

to. Safety clearly comes second to those whose sole motive is to make money.

Manufacturers have depended on British Gas to generate and maintain a healthy and viable appliance market, and want this relationship to continue.

It is only the Monopolies Commission and the present government which wants to hand over this expanded market entirely to private traders. And the reason is simple — the Gas Board's retail trade is its most profitable section.

The Gas Board monopoly is easily justified by examining its record, not just on safety and maintenance, but on its efficiency, its financial stability and its encouragement of Authorised Dealers who have increased the range of goods available to consumers.

**WE STOPPED** an East End housewife as she came out of her local gas showroom to see what she thought about the Monopoly Commission report. She had never heard of it.

As she had just signed up a hire purchase agreement on a new cooker, we asked what she would do in three years time if it broke down and she found that no spare parts could be obtained because the manufacturer had gone out of business.

"I'd be hopping mad," she said. "The saleswoman in the showroom told me they'd provide spare parts and servicing for years."

So we told her: "In three years time there may be no showrooms to go to, and North Thames Gas may not be able to sell or service appliances."

"Are you from 'Canada Camera' or 'That's Life'?" said she, coupled with a rude expletive.

She got quite upset when we explained that this was what the Government was planning.

"We've always had a local gas showroom," she said. "Me and my husband chose our first cooker here, before we got married. I even know some of the gasmen by name."

"It's stupid, if you ask me. They might be a bit pricey at times, but at least you get a good service."

Our friend was beginning to get rather confused. She said the same model cooker she was buying was cheaper at a nearby discount warehouse, but she'd gone to the gas showroom because she knew they could guarantee service. "You only have a pick up the phone," she said.

We went on to tell her that the Gas Board is the biggest customer of appliance manufacturer-

**"Hopping mad" at Thatcher's plans**

ers. The government want to encourage competition by closing down the showrooms.

Then we asked what she used the showroom for. "I pay my gas bill there, and my HP payments. My friend and I have a look round at things or go to the cookery demonstrations when we're out shopping."

"And I do a few bits and pieces for my mum. I get her gas savings stamps every week. She's too proud to go on supplementary, so she saves up for her bill that way."

But she couldn't understand why the showrooms might have to close. "What can I do about it?" she asked. "I'd like to tell that Thatcher what I think of her stupid plans."

We told her that might be a good idea, and she might like to tell a few more people besides about what may happen — her friends and neighbours, her local councillor, her MP, or even write to her local councillor, her MP, or even write to her local paper. And she promised to have a go.

The Gas Board has millions of customers like her, and if they all saw it her way they would be able to change the government's mind.

# Stop them robbing the nation's gas meter

"The Government's struggle to introduce some measure of private enterprise into the British Gas Corporation has lasted since it took office. Having failed so far to prise away the Corporation's oil interests it is now putting pressure on it to sell its 1100 High Street Showrooms."

from the NEW STANDARD, 27 May 1981

Six years ago British Gas owed the government over £1,650 million. Not only has this debt been repaid, but in 1979 British Gas became the first nationalised industry to lend money to the government.

This year the government imposed a levy on British Gas — £1,300 million will have to be paid out by March 1983. This cash could have been used for long term exploration to make up for the loss when the North Sea gasfields begin to run down.

This government forced British Gas to increase its charges to customers to bring them in line with electricity. Now that the Gas Board is making a profit, the Government wants to take away its most profitable trade. It would seem that the Government's interests are not the same as those of gas consumers and the Gas Board itself.





# Gaspoint

- **No more showrooms, higher prices and poorer servicing**
- **Unions fear 30.000 jobs loss**
- **Takeover will threaten high safety standards**

# How Bromley gas works

**500 JOBS  
UNDER  
THREAT**

In Bromley-by-Bow, beside the River Lea which runs through the heart of London's East End, is one of the largest warehouses of its kind in Europe.

This is the nerve centre of North Thames Gas, a vast stores, transport and service depot which services customers from Windsor in Berkshire to Canvey Island in Essex.

For generations the East End has supplied the workforce at Bromley, which along with nearby Beckton was the largest gas producing works in Europe before the advent of natural gas.

In many ways this depot provides clear evidence of the importance of a unified gas industry, combining the economies of scale with the expertise and efficiency which comes from years of know-how. Gas Board cookers, fires and refrigerators are tested and stored here before distribution, as are millions of spare parts, steel, copper, meter fittings, and vast quantities of pipes for gas mains, tools and safety equipment.

This is also the central vehicle workshop and transport stores for the 3000 vehicles which service the whole region. It has its own vehicle testing centre, and a driving school for everything from small vans to cranes.

The sales and service departments of North

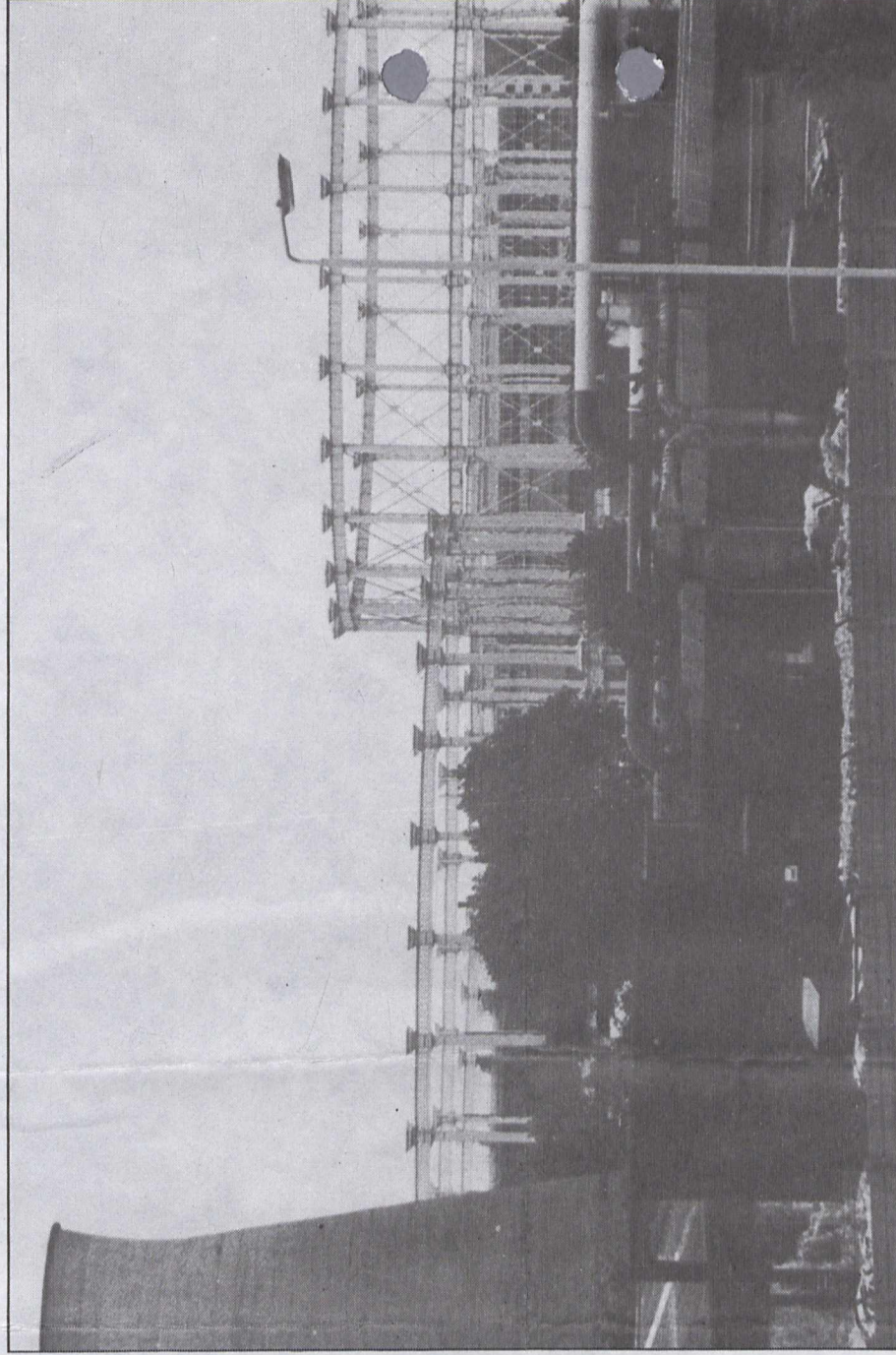
## A local nerve centre

Thames Gas can order from Bromley Gas Works through one of the most sophisticated computerised stock control systems in Europe. Any other region in the country can make use of the depot through a mutual exchange system initiated by Bromley employees several years ago.

Yet this whole complex could close down if the Gas Board's retail trade is hived off to private enterprise by the government.

Staff at the Bromley Gas Works have asked the Gas Board to invite MPs, council leaders and community organisations to visit our workplace to see for themselves the massive back up which has been developed to service those millions of customers who use gas in their homes.

They would see how



*Bromley Gas Works: a vital service that could face closure.*

our maintenance and safety checks are carried out, they would learn that British Gas has the capacity to service any one of 8,500 different gas appliances, and find spare parts of the 34,000,000 appliances currently in use, more than half of which are no longer produced by the original manufacturers.

If they asked the right questions they would discover that this whole operation is regarded as an obligation to the Gas Board's customers.

Much of the work is unprofitable, but the Gas Board and its employees believe that, as the supplier of a basic fuel, they have a social responsibility to ensure that consu-

mers receive a comprehensive service.

Quaint old notions about Gas Works would be quickly dispelled by a visit to depots like Bromley, and the people who own them, every taxpayer in the country, would realise just how serious a threat denationalisation is to things which we all take for

granted. Bromley Gas Works has a proud tradition which has kept up with the demands of modern living — we cannot let it die.

It is not just jobs which are at stake, it is the well-being of the community and the safety and security of gas consumers everywhere.

## Gas chairman speaks out



SIR DENIS ROOKE, Chairman of the British Gas Corporation, has been criticised in Parliament for defending British Gas interests.

Although his own contract has now been extended, he was attacked for publishing a four-page newspaper explaining the Monopolies Commission report to employees, and spending money on a major television advertising campaign.

He has repeatedly said that "if a fight is necessary the Corporation will fight."

In a long statement to his employees, Sir Denis wrote "I cannot believe that the best interests of 14 million showroom customers are going to be served by the whole sale disposals or closure of gas showrooms and the forcible withdrawal of British Gas from appliance retailing."

He said that he had been "heartened by the traditional loyalty" of the workforce over a period when their future was in doubt and he laid stress on the fact that neither the Monopolies Commission nor the Prices Commission Report had criticised their performance.

## Now you can take action

IF YOU are worried by what you have read in GASPOINT, here are some things you could do to help prevent the breaking up of British Gas.

Write a letter to:

- Sally Oppenheim MP, Consumer Affairs Minister, or your own MP at the House of Commons, Westminster, SW1A 0AA;
- Sir Denis Rooke, Chairman of the British Gas Corporation, 59 Bryanston Street, W.1.
- North Thames Gas Consumers Council, 28 Charing Cross Road, WC2,
- your local councillors at the Town Hall.

Get together with friends and neighbours, at your tenants association or trades union branch, or in any group to which you belong, discuss the issues raised in GASPOINT and organise your own form of opposition to the Government's proposal.

The gas workers union will be keen to hear from you and willing to come and explain in more detail.

## East End News

GASPOINT was produced for gas workers by the *East End News*, the first local newspaper in the country owned and run by its readers.

The *East End News* has also helped publish Month of Action News for the South East Regional TUC the Official Souvenir of the People's March for Jobs, NALGO's monthly Metropolitan District News and offers full journal-

istic and design services to all trade unions.

It has assisted with the production of East London History Society's Record and has just published Drawn from the East End, a collection of illustrations, cartoons and artwork (£1 from East End News).

For more information write to: EEN, 17 Victoria Park Square, Bethnal Green, London E2 9PE.

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From the  
Minister of State  
for Consumer Affairs

The Rt Hon Sally Oppenheim MP

The Rt Hon David Howell MP  
Secretary of State for Energy  
Thames House South  
Millbank  
London SW1

*David*

MMC REPORT ON GAS APPLIANCES

I am writing to you following my statement in the House on 8 July to express my views about certain important aspects of the implementation of the Government's decision on the gas showrooms. I am thinking in particular of the structure of the programme for putting our decision into operation.

I should like to deal first with the competition aspects. We have taken our decision as a sequel to the findings of the Monopolies & Mergers Commission on competition in this sector; and I am sure that its public impact as a decision benefitting the consumer will continue to depend on the advantages of competition being highlighted as the programme of disposals enters its first phase. The structure of that first phase will need careful handling so as to ensure that it takes place in localities where we can be as certain as possible that the market gap left by the BGC will not be followed by a hiatus, or be filled only by a rival private sector local monopolist, but will be taken up reasonably swiftly by competing retail outlets setting out to woo the consumers. In setting the policy guidelines for disposals the Government should therefore try to ensure that localities are identified where there is sufficient retail capacity to guarantee availability of appliances and accessibility for consumers and, most important of all, to ensure that the benefits of increased and increasing competition are fully visible. In this respect I think we should be aiming at the small towns and cities where retailing capacity is centred within a small and concentrated area (incidentally these are likely to be among the more valuable showrooms), or those larger conurbations that have similar concentrations of retailing capacity within them, leaving the rural areas until the latest possible dates.

contd/.....

CONFIDENTIAL

cc: David  
A. W. Jones  
J. Verker  
Nat Ind  
DEPARTMENT OF TRADE  
1 VICTORIA STREET  
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01 215 5662  
SWITCHBOARD 01 215 7877

*mm*

*h*

*17/7* 16 July 1981



CONFIDENTIAL

Aside from competition, I naturally share the general concern with employment and with safety. On employment, I fully accept that there was no alternative to our having to undertake, as I said in my statement, that the gas unions would be consulted at all stages about the detailed implementation of our decisions, so that the impact on employment prospects can be minimised. I am nonetheless somewhat concerned that we were forced into this position, and at the delays that will inevitably result from it, given the delicate nature of your task.

On safety, I was glad to note that your officials have already formed a Working Group to consider measures under the Energy Conservation Act and the Consumer Safety Act to provide for appliance safety. There remains the question of standards for installation and servicing. Some measures can no doubt be taken in this field by amending your Gas Safety Regulations. But, to the extent that we are contemplating new legislation, I would personally favour putting the Confederation for the Registration of Gas Installers (CORGI) on a statutory footing. I am well aware of the objections which there may be to the creation of a further statutory registration council or similar body; and if these objections were overriding one alternative (which I understand your officials are already considering) would be for the gas safety regulations to require installation to be carried out only by firms and competent workmen trained in accordance with CORGI requirements without making CORGI itself a statutory body. But given that the question of safety gives rise to one of the main fears in the public mind I think that a move towards a statutory body would both remove anxiety and - equally importantly - ensure that the Government had adequate control, in the interests both of safety and of fair dealing towards private sector engineers (whose livelihood, under a strengthened regime, could well prove dependent on the approval of the registration body). I believe that registration bodies of this kind are mirrored in some other European countries, and I think that it would be useful if your officials, in consultation with mine, could consider urgently whether a similar system of safeguards could be introduced in this country.

Correspondence which I have received about the Government's decision shows clearly that the facilities for bill paying and consumer advice are another subject of concern to members of the public. As yet no decision has been taken about this; but our commitment to ensure that these services continue must be met, whether by Post Offices for bill paying, a telephone advice service, or by a continuing gas corporation presence, eg in large private sector retail showrooms. This is obviously a matter for negotiation, advice and decision but it is one that cannot be long delayed.

contd/.....

CONFIDENTIAL



CONFIDENTIAL

As for the disposal of the showrooms themselves I believe that it is very important to ensure that this does not take place in the framework of some cosy relationship between BGC and whatever agents usually act on their behalf. I am advised that the most financially effective way of carrying out such disposals is by means of competitive tendering for groups of shops, rather than by auctioning individual shops. In any case I am sure this should be handled by expert agents both hitherto independent from BGC and specialists in their field and in particular localities.

Finally, while I am conscious of the difficulties and the delicacy with which negotiations will have to proceed, time is of the essence. I feel that there is a considerable danger of delay, which could lead to a situation in which the benefits of the decision will not be seen by members of the public before an election. This, of course, would be most unfortunate; and I am sure that you are well aware of this.

I am copying this letter to all members of E and to Sir Robert Armstrong.

Yours Ever  
Sally

SALLY OPPENHEIM

CONFIDENTIAL



Ann Austin

✓ Mr. Lyden  
Mr. Verden  
Mr. Dennis

CONFIDENTIAL

Prime Minister

*[Handwritten signature]*

R  
13/7


INDUSTRIAL ACTION IN GAS INDUSTRY

As you are aware, the Manual and Staff Gas Unions called an official one-day strike on Monday, 13 July, as part of their joint campaign against the Government's decision that the British Gas Corporation (BGC) should withdraw from gas appliance retailing and sell its showrooms.

The Unions stated that this was basically a "demonstration" to show the strength of feeling against the sale of the showrooms throughout the BGC workforce, but that if the Government did not change its decision they would take more severe and more prolonged action.

The BGC management's initial estimate is that about 100,000 of their total 106,000 workforce supported the strike. The majority of those remaining at work were from top management grades. The vast majority of gas showrooms and service depots were closed and headquarters offices only had a skeleton staff mainly comprising management. The main gas transmission and distribution network continued to function although the withdrawal of manual support from certain monitoring functions placed extra burdens on senior management.

The Unions claimed that in past disputes the management have tried to thwart strike action by defining tasks as having safety implications, thus falling within the 'emergency service' category. The emergency services were therefore one of the Unions' principal targets yesterday. The Unions' response to emergency calls varied from Region to Region: in some Regions the manuals withdrew all support and the senior management had to operate the emergency service: BGC say that they were able to cope without any serious risk to public safety but this was a serious development and they could not operate adequate emergency services during a protracted strike.



The Unions have stated publicly that they will institute more prolonged action in the Autumn if the Government proceeds with its proposals. This would, of course, bring us into the period of colder weather when customers using gas for space heating would be more at risk. Given the financial implications of an all-out strike for the Unions' members, the BGC management believe that the Unions will opt initially for selective strike action which could be just as damaging if the targets were carefully selected. Apart from the emergency services (which BGC are urgently considering how to maintain during a strike), the two prime targets would be the national gas transmission system and the regional distribution system. The national transmission system is centralised and highly automated but nevertheless is dependent for its continued operation on about 2,500 staff and without essential maintenance progressive closure of parts of the system would result, with loss of all gas supplies in the areas affected.

I met the Union representatives last Friday to discuss the Government's proposals and the possible effects on their members. I explained, as Norman Lamont and Sally Oppenheim have made clear, that the Government did not accept that the redundancies in BGC would be as severe as the Union claimed and that Union figures were absurdly exaggerated. I emphasized that the Government had promised wide consultations on the implementation of the proposals and that we should certainly be willing to have further discussions with the Unions in order to minimise the consequences for BGC employees.

N All in all I think the risks of further serious industrial action in the short term are limited. Provided the situation is handled with care, especially by the BGC, it may be possible to avoid serious action in the Autumn also. But the Unions have clearly demonstrated their power and we will continue to run the risk of action which could extend to gas supplies. I will continue to press BGC to proceed with care and we must avoid anything which would inflame the situation. I will keep the situation under review and report further as it develops.

I am copying this to Cabinet colleagues and to Sir Robert Armstrong

Nat 9J

01 211 6402

Rt Hon Sir Keith Joseph Bt MP  
Secretary of State for Industry  
Department of Industry  
Ashdown House  
Victoria St  
London SW1

2

9 July 1981

9/7

Dear Keith

As foreseen in my letter of 19 June the Chairman of Sheerness Steel, Mr Schueppert, has written to me again about his company's problem with energy costs. While his shareholders appear to have given him a breathing space in which to seek to return to profitability he is still pressing for direct Government assistance.

Our officials have been in touch about this in the context of the MISC56 discussion of possible assistance to a limited number of large industrial consumers. I appreciate that it is not possible to consider the case of Sheerness Steel in isolation from those of other possible candidates and I recognise that there are considerable problems both political and practical to be faced in mounting such a limited scheme of assistance. You will, however, wish to be aware of this latest letter from Mr Schueppert.

I am copying this to the Prime Minister and the Chancellor of the Exchequer.

Yours  
David

D A R HOWELL

ME3201TH

UNITED STATES OFFICE  
TO MR PASH  
FOR ADVICE AND  
DRAFT REPLY IF  
APPROPRIATE  
PLEASE BY:  
13/7/81

Pass to  
RUS  
MR MANGLEY  
MR MURPHY  
MR C L JONES  
MR MACINTYRE  
MR DAVIS

1st July, 1981



The Rt.Hon David Howell, MP,  
Secretary of State for Energy,  
Department of Energy,  
Thames House South,  
Millbank,  
London SW1P 4QJ.

**SHEERNESS  
STEEL**

13/7

Dear Mr. Howell,

In my letter to you of 20 May 1981, I stressed the importance of energy prices in determining the viability of Sheerness Steel Company. I also indicated that our Board of Directors, at their 18 June meeting, would review the feasibility of continuing operations in the light of heavy losses the past year and questionable future prospects.

With some reluctance the Board agreed a refinancing plan which will bring £7 million of private money into the company to bolster working capital. It remains to be seen whether all shareholders and banks will support this plan, but I am hopeful this will occur. The new funding will carry us through for about a year during which time we must demonstrate profitable operations. Energy prices will be a dominant factor in determining whether or not we are successful.

The very limited assistance which the Government has so far provided to bulk energy consumers will be insufficient to make private steel competitive with the heavily subsidised BSC and other nationalised sectors of the European steel industry. If the steel subsidies cannot be eliminated immediately then at the very least we must have competitive energy either by revaluing Sterling or by direct assistance. The assistance on energy must not be deferred and in fact should be in effect from the beginning of the fiscal year 1981/82. The order of magnitude of the assistance must be closer to the 35 percent energy price gap than the 4 percent made available to date.

I look forward to your reply at your earliest convenience and as always I am willing to provide additional information as required.

Sincerely Yours,

C.C. Schueppert

Directors  
C. C. Schueppert (U.S.) Chairman & Chief Executive P. A. Learmond Deputy Chairman & Commercial Director Sir John Coulson K.C.M.G.  
A. J. Hamilton (Cdn) G. R. Heffernan (Cdn) M. M. Koerner (Cdn) B. D. Oram W. H. Philipp (U.S.) L. H. Schipper (Cdn)  
F. G. Winspear (Cdn)

Registered Sheerness, England. No. 882919





PRIME MINISTER

cc Mr Gow

Gas Appliances' Statement

Mrs. Oppenheim had a tough time in the House this afternoon. I attach a copy of her statement.

In what seemed to be a co-ordinated campaign, the Opposition benches came close to howling her down on at least two occasions during the statement itself. John Smith then laid into the substance of the decision, claiming that it was part of a vendetta against BGC which included the disposal instruction on Wytch farm, that the abandonment of the retailing role would be disastrous in safety terms, and that vast numbers of school leavers jobs would be jeopardised. He described her statement as a remarkable humiliation for the Secretary of State for Energy ("especially considering the Minister from whom it was delivered"). He warned of the risk of industrial action, and declared that his Party would seek to reverse the decision as soon as they had the power to do so.

In reply, Mrs. Oppenheim said that it was not a Party political issue. A Labour Government had referred the matter to the MMC. Would Labour had done nothing on the report if it had been received when they were in power? Mr. Smith's statement had been designed to inflame the situation.

From the Government backbenches, Anthony Grant, Nigel Forman, and Trevor Skeet joined in helpfully, whilst Arthur Palmer, David Penhaligon and Terry Davis attacked the decision. Arthur Lewis spoke of the alienation of traditionally moderate unions. Tom Ellis asked why the BGC could not stay in the business in competition with the private sector.

John Wilkinson, declaring his interest as a consultant to the representative body for private sector manufacturers, said that many people were unhappy with a salami tactics approach to denationalisation. It would be preferable for BGC to be allowed to raise equity capital on the market. There had been heavy

/investment

investment in recent years by the appliance manufacturers. This decision would lead to serious dangers of significant import penetration. (The import penetration point was frequently audible in the Opposition interruptions throughout the statement.) Mrs. Oppenheim said that Mr. Wilkinson under-estimated the strength of the industry. Bob Brown declaring his interest on behalf of the GMWU asked whether the Government could implement the changes without legislation. Tim Eggar sought confirmation that BGC would be expected to comply with this decision based on an MMC recommendation, in the same way as would be expected by any private sector company which was the subject of an MMC report.

In the closing round, John Smith returned to the question of legislation. Was it required, and if so when would it be introduced? Mrs. Oppenheim said that she would not anticipate the next Queen's Speech, and that consultations between Mr. Howell and Sir Denis Rooke had already started. There followed a series of bogus points of order from the Opposition side. I should perhaps record Arthur Lewis' point, that the broad content of the statement had been pretty thoroughly leaked over about three weeks and yet the Government Minister concerned chose to come and make the statement on a Supply Day. Since it appeared that the decision had been reached some time ago, could not the Government be a little more courteous in its choice of timing for this kind of statement.

MAJ

8 July 1981

MMC REPORT ON GAS APPLIANCES: STATEMENT

With permission, Mr Speaker, I should like to make a statement on the action which the Government has decided to take following the report on the Monopolies and Mergers Commission on the supply of certain domestic gas appliances, published last year.

I told the House on 17 June of the public interest findings made by the Commission in their report.

They considered that the British Gas Corporation's monopoly had acted against the public interest by restricting competition in the retailing of appliances.

This had limited the number of independent outlets, suppressed competition, and possibly had increased prices.

They also considered that the manufacturers' over-dependence on BGC had indirectly led to poor export performance on the part of the manufacturers, reduced incentives to improve efficiency and depressed investment; and that this was against the public interest.

I told the House on 17 June of the options put forward in the MMC report.

The Government has considered these, and others, with great care, bearing in mind that the Government's objective and first responsibility must be to respond to and remedy the adverse findings in the Commission's report in a way consistent with the need to give consumers wider choice, better service, safety, availability and convenience, and at the same time to minimise as far as possible any adverse effects of any changes on our own manufacturing industry and the employees of the British Gas Corporation; and I should like on this occasion to repeat the statement which I made in the House on 17 June that no solution that failed to maintain safety, at least at its present level, that generally inconvenienced consumers, or that was seriously damaging to manufacturers, would be acceptable to the Government.

Having considered carefully and consulted widely, the Government has concluded that in order to remedy the adverse effects identified by the Commission the BGC should withdraw from its current retailing operations but that the timetable of three years in the MMC's first option is too compressed a period.

The Government has decided therefore that the Corporation should be required to cease retailing domestic gas appliances and to dispose of their showrooms over a five year period.

This would be a carefully structured and phased programme of withdrawal, with the Corporation being required to dispose of half their showrooms within two years, a further quarter in the following year, and the remaining quarter in the final two years.

The Government will, if necessary, introduce legislation to give effect to this decision.

As a counterpart to these steps, the Government is also considering measures under the Fair Trading Act to counteract certain adverse effects of the gas appliance manufacturers' monopolies identified by the Commission.

The Government is clearly concerned to minimise the impact of its decision on employment.

In this context I must stress that the Government is not proposing to curtail British Gas's servicing and installation activities.

The decision will therefore only have a direct bearing on those who are employed in appliance retailing, mainly in British Gas's showrooms.

The Government would wish British Gas to maintain some customer contact points and since they have stated that 80 per cent of showroom staff's time is spent on activities other than retailing the number of jobs which could be affected should be minimised.

Nevertheless, the Government recognises that concerns about employment

are deeply felt by Gas Corporation employees although, in the Government's view, these fears are largely unfounded.

The Government will consult British Gas and their unions closely at all stages about the detailed implementation of these decisions so that the impact on employment prospects can be minimised.

The Government is well aware that a change of the kind it has decided upon will represent a radical move away from the gas appliance market as we know it today.

But the Government would not have reached the decision which it has reached if it did not believe it to be right, justified and necessary, and a measure essential to the enhancement of competition in the public interest.

We believe also that as this sector evolves away from its present monopoly dominated structure there will be positive benefits alike to the consumer and to gas appliance manufacturers, as competition between retailers develops to meet consumer needs and satisfy consumer demand, providing, as enhanced competition always does, wider choice and better service.



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- D/W.  
DITrade.

10 DOWNING STREET

THE PRIME MINISTER

8 July 1981

Thank you for your letter of 24 June about the future of the Corporation's retailing activities. As you know, the Government has now decided that the Corporation should withdraw from the appliance retailing market and dispose of its gas showrooms over a period of five years.

This decision was not an easy one, nor was it taken lightly. But once the Government accepted the very serious findings in the Monopolies and Mergers Commission Report about the extent to which the Corporation's monopoly had acted against the public interest, thorough and effective action to restore free competition had to be taken. The changes that will result are also consistent with the Government's policy of reducing the size of the public sector, by transferring to the private sector activities which could equally well be performed there. This is in itself a major Government objective, vital to the success of our overall economic strategy. There is no self-evident reason why a gas supply utility should be in the business of appliance retailing - British Gas is unique in the level of its involvement in retailing - especially since, on the evidence presented, it seems that this activity is not profitable in its own right. In these circumstances, it is only right in our view that the growth of a healthy private sector capable of taking over the Corporation's role in the market should be encouraged. I understand your fears that the integrated nature of the Corporation's

/ business

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business will be in some way damaged by withdrawal from appliance retailing, but we believe that this fear will prove to have been exaggerated, and that no real damage will be done to the Corporation's main role of supplying gas economically.

I should like to take this opportunity to assure you that our decision has been arrived at only after the fullest possible consideration of all relevant factors. I think the fact that the Government has been actively considering its response to the MMC report since July 1980 speaks for itself. I know that David Howell and Sally Oppenheim have received representations from a very wide range of interested parties, and have held consultations with all the major interest groups, including the manufacturers, the unions and the Corporation.

In this context I do not accept, as you imply in your letter, that the Corporation have not been fully consulted. The Corporation's views as contained in its detailed submission last September were given the most careful consideration; and I understand that, in addition to a number of meetings between officials and representatives of the Corporation and exchange of correspondence, David Howell met you twice to discuss this subject before the Government reached its final decision.

I am copying this letter, as you did yours, to David Howell.

(SGD) MARGARET THATCHER

Sir Denis Rooke, C.B.E., F.R.S.

CONFIDENTIAL

*Nat Lab*



DEPARTMENT OF TRADE  
1 VICTORIA STREET  
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01 215 5662  
SWITCHBOARD 01 215 7877

From the  
Minister of State  
for Consumer Affairs

The Rt Hon Sally Oppenheim MP

*cc Mr Duffield*

*Mr Watten*

*at Pm mine*

*Mine  
MP*

The Rt Hon Francis Pym MC MP  
Chancellor of the Duchy of Lancaster  
Privy Council Office  
Whitehall  
London SW1

8 July 1981

*J. Pym*

MMC REPORT ON GAS APPLIANCES

*will report  
if required*

*1297*

Thank you for your letter of 6 July in answer to mine of 3 July. I have also seen Keith Joseph's letter of 3 July and David Howell's letters of 6 and 7 July.

I am grateful for your agreement to my making a statement about the Government's intentions on Wednesday 8 July. I agree with you and David Howell that the draft which I circulated on 3 July was longer than necessary; and I now enclose a shortened text which John Biffen and I have considered in the light of yesterday evening's discussion with colleagues and which will, I hope, meet your wishes and those of David Howell. As you will see I have deleted the references to legislation which you found objectionable in the former paragraph 7, and have replaced them with a simple statement at the end of paragraph 4 that "the Government will, if necessary, introduce legislation to give effect to this decision". This follows the wording proposed in David Howell's letter of 7 July, although to my mind it is very much akin in spirit to the wording proposed in the penultimate paragraph of your letter. If you agree I would be inclined to prefer the wording proposed by David Howell because I agree with his argument (in his letter of 6 July) that it is particularly important to refer to legislation, in that this would make it credible for British Gas and HMG to argue that the proper course for the gas unions, if they object to our proposal, is to campaign against the Bill, and that there is thus no justification for strike action.

I am copying this letter to all Members of E, to the Chief Whip and to Sir Robert Armstrong.

*Sally Oppenheim*

SALLY OPPENHEIM

CONFIDENTIAL





## DRAFT STATEMENT

With permission, Mr Speaker, I should like to make a statement on the action which the Government has decided to take following the report on the Monopolies & Mergers Commission on the supply of certain domestic gas appliances, published last year.

2 I told the House on 17 June of the public interest findings made by the Commission in their report. They considered that the British Gas Corporation's monopoly had acted against the public interest by restricting competition in the retailing of appliances. This had limited the number of independent outlets, suppressed competition, and possibly had increased prices. They also considered that the manufacturers' over dependence on BGC had indirectly led to poor export performance on the part of the manufacturers, reduced incentives to improve efficiency and depressed investment; and that this was against the public interest.

3 I told the House on 17 June of the options put forward in the MMC report. The Government has considered these, and others, with great care, bearing in mind that the Government's objective and first responsibility must be to respond to and remedy the adverse findings in the Commission's report in a way consistent with the need to give consumers wider choice, better service, safety, availability and convenience, and at the same time to minimise as far as possible any adverse effects of any changes on our own manufacturing industry and the employees of the British Gas Corporation; and I should like on this occasion to repeat the statement which I made in the House on 17 June that no solution that failed to maintain safety, at least at its present level, that generally inconvenienced consumers, or that was seriously damaging to manufacturers, would be acceptable to the Government.

contd/.....



4 Having considered carefully and consulted widely, the Government has concluded that in order to remedy the adverse effects identified by the Commission the BGC should withdraw from its current retailing operations but that the timetable of three years in the MMC's first option is too compressed a period. The Government has decided therefore that the Corporation should be required to cease retailing domestic gas appliances and to dispose of their showrooms over a five year period. This would be a carefully structured and phased programme of withdrawal, with the Corporation being required to dispose of half their showrooms within two years, a further quarter in the following year, and the remaining quarter in the final two years. The Government will, if necessary, introduce legislation to give effect to this decision.

5 As a counterpart to these steps, the Government is also considering measures under the Fair Trading Act to counteract certain adverse effects of the gas appliance manufacturer's monopolies identified by the Commission.

6 The Government is clearly concerned to minimise the impact of its decision on employment. In this context I must stress that the Government is not proposing to curtail British Gas's servicing and installation activities. The decision will therefore only have a direct bearing on those who are employed in appliance retailing, mainly in British Gas's showrooms. The Government would wish British Gas to maintain some customer contact points and since they have stated that 80 per cent of showroom staff's time is spent on activities other than retailing the number of jobs which could be affected should be minimised. Nevertheless, the Government recognises that concerns about employment are deeply felt - notably by Gas Corporation employees. Whereas we can understand and sympathise with their concern, in the Government's

view/.....



CONFIDENTIAL

view these fears are largely unfounded. The Government will consult British Gas and their unions closely at all stages about the detailed implementation of these decisions so that the impact on employment prospects can be minimised.

7 The Government is well aware that a change of the kind it has decided upon will represent a radical move away from the gas appliance market as we know it today. But the Government would not have reached the decision which it has reached if it did not believe it to be right, justified and necessary, and a measure essential to the enhancement of competition in the public interest. We believe also that as this sector evolves away from its present monopoly dominated structure there will be positive benefits alike to the consumer and to gas appliance manufacturers, as competition between retailers develops to meet consumer needs and satisfy consumer demand, providing, as enhanced competition always does, wider choice and better service.

CONFIDENTIAL

cc. B1  
JH  
JW

## 10 DOWNING STREET

From the Private Secretary

7 July, 1981.

Dra Peter.

BF 9.7.81  
for Hayward.Statement on the withdrawal of BGC from the Sale of Gas Appliances

As you know, the Prime Minister held a meeting this evening to discuss the proposed statement tomorrow on the withdrawal of BGC from the sale of gas appliances. The following were present in addition to your Minister: the Chancellor of the Duchy of Lancaster, the Secretary of State for Employment, the Secretary of State for Trade, the Secretary of State for Energy, the Financial Secretary, and the Chief Whip.

The Secretary of State for Energy said he was concerned about the risk of strike action in the gas industry if the statement were made as planned. BGC's view was that the unions would respond with an immediate token strike, and that they would then draw up plans for longer term action, which would probably be primarily aimed at industrial users. He was not at this stage questioning the decision that had been taken to dispose of the gas show rooms; but he believed that a postponement of the statement by Mrs. Oppenheim would be helpful from two points of view. Firstly, it would enable the Government to spend some more time trying to soften up the unions and generally to improve the atmosphere for the acceptance of the decision - it was relevant that NALGO leaders had said that some delay would make things easier. Secondly, it would provide time for Ministers to consider further the contingency arrangements that would be needed for dealing with possible strike action.

The Secretary of State for Employment said that he agreed that some postponement of the statement would be desirable. In his view more time was needed to consider the implications of possible strike action, and what the Government could do to mitigate its effects. There was also a case for postponing the announcement until after the miners' conference had ended.

In discussion, it was pointed out that the Press were already aware that the statement was planned for tomorrow. There had been a number of leaks about the Government's intentions over the past week; and the longer the statement was delayed, the more time this would give the unions and BGC to mount their opposition. The unions and BGC management had already been

/consulted

consulted at length and it was unlikely that further consultations would persuade them of the Government's case. Furthermore, if the statement were now delayed, it would look as if the Government was bowing to union and nationalised industry pressure once again. While strike action in response to the statement was quite possible, a 24 hour token strike should not give too much cause for concern; and there would almost certainly be time for Ministers to consider the contingency arrangements for dealing with longer term action.

Summing up, the Prime Minister said that she was not persuaded that the statement should be postponed. It should, accordingly, be made tomorrow as planned. Every effort should be made to minimise the risk of industrial action; and with this in mind, the statement should deal comprehensively with the likely employment implications of the decision, and with the safety aspects. It should also emphasise that the decision was going to be implemented over a five year period, and that there would be further consultation with the unions.

I am sending copies of this letter to David Heyhoe (Chancellor of the Duchy of Lancaster's Office), Richard Dykes (Department of Employment), John Rhodes (Department of Trade), Julian West (Department of Energy), David Willetts (Financial Secretary's Office), Murdo Maclean (Chief Whip's Office) and David Wright (Cabinet Office).

*Tim Laker.*

Peter McCarthy, Esq.,  
Department of Trade.



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

01 211 6402

The Rt Hon Sally Oppenheim MP  
Minister of State for Consumer  
Affairs

Department of Trade  
1 Victoria St  
London  
SW1H 0ET

7 July 1981

*Dea Sally*

MMC Report on Gas Appliances

Thank you for copying to me your letter to Francis Pym enclosing a draft of the statement you propose to make on the response to the MMC Report on Gas Appliances.

In general I think the statement is perhaps on the long side and I wonder whether it is necessary to rehearse all the arguments with which the House will be fairly familiar. Whether or not the statement is shortened, I would like the last sentence of paragraph 4 deleted. The Commission did not reject the subsidiary proposal as an ineffective half-way house but argued that such a subsidiary would be unlikely to be profitable if it had to bear the full cost of the showrooms.

You will by now have seen my letter to you following Norman Lamont's meeting with the leaders of the Gas Unions on Friday. In the light of that I believe paragraphs 6 and 7 need substantial redrafting. I also feel that the statement should be as consistent as possible with my letter informing the Corporation of our decision. As drafted, paragraph 6 implies that we will only be requiring them to dispose of their showrooms. I have made it clear to the Corporation that we will be requiring them to cease retailing also.

I therefore suggest that paragraphs 6 and 7 should be replaced by the following three paragraphs:-

"6. Having considered carefully and consulted widely, the Government has concluded that the British Gas Corporation should withdraw from its current retailing operations but that the timetable of three years in the MMC's first option is too compressed a period to be consistent with the prerequisites to which I have referred. The Government has decided therefore that the Corporation should cease retailing and dispose of its



showrooms over a five year period. This would be a phased programme of withdrawal with the Corporation being required to dispose of half of its showrooms within two years, a further quarter in the following year, and the remaining quarter in the final two years. Government will if necessary introduce legislation to give effect to this decision.

"7. In the Government's view the extended timetable would have the twin virtues of being gradual enough to avoid any sudden disruption of the gas appliance market, while short enough to meet the requirement for an urgent solution to the problems which the report highlighted and to attract private sector retailers to the new trading opportunities that would be created by a transformation of the market in the short term.

"8. The Government is also concerned to minimise the impact of its decision on employment. In this context I must stress that the Government is not proposing to curtail British Gas's servicing and installation activities. The decision will therefore only have a direct bearing on those who are employed in appliance retailing, mainly in British Gas showrooms. The Government would wish British Gas to maintain some customer contact points and since they have said that 80% of showroom staff's time is spent on activities other than retailing, the number of jobs which could be affected should be limited. Nevertheless the Government will consult British Gas and their Unions closely about the detailed implementation of these decisions so that the impact on employment prospects can be minimised."

The old paragraph 8 now becomes paragraph 9, on which I have no comments.

I am copying this letter to the recipients of yours.

*Yours*

D A R HOWELL

*David*

RESTRICTED



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

01 211 6402

T Lankester Esq  
Private Secretary  
to the Prime Minister  
10 Downing Street  
London SW1

6 July 1981

*Nat 3*  
*Prime Minister*  
*Draft reply*  
*attached.*  
*R*  
*4*  
*67*

Dear Tim,

As requested in your letter of 26 June I enclose a draft reply to the letter about domestic gas appliances which Sir Denis Rooke has written to the Prime Minister. This has been produced in consultation with the Department of Trade at official level, and agreed by Ministers here.

I am copying this letter and enclosures to John Rhodes (Department of Trade).

Yours truly,

JULIAN WEST



DRAFT LETTER FOR THE PRIME MINISTER TO SEND TO:

Sir Denis Rooke CBE FRS F Eng  
Chairman  
British Gas Corporation  
Rivermill House  
152 Grosvenor Road  
London SW1V 3JL

1. Thank you for your letter of 24 June about the future of the Corporation's retailing activities. As you know, the Government has now decided that the Corporation should withdraw from the appliance retailing market and dispose of its gas showrooms over a period of five years.

2. This decision was not an easy one, nor was it taken lightly. But once the Government accepted the very serious findings in the Monopolies and Mergers Commission Report about the extent to which the Corporation's monopoly had acted against the public interest, thorough and effective action to restore free competition had to be taken. The changes that will result are also consistent with the Government's policy of reducing the size of the public sector, by transferring to the private sector activities which could equally well be performed there. This is in itself a major Government objective, vital to the success of our overall economic strategy. The Government believe that there is no self-evident reason why a gas supply utility should be in the business of appliance retailing - British Gas is unique in the level of its involvement in retailing - especially since, on the evidence presented, it seems that this activity is not profitable in its own right. In such circumstances it would be only right in our view that the growth of a healthy private sector capable of taking over the Corporation's role in the market should be encouraged. I understand your fears that the integrated nature of the Corporation's business will be in some way damaged by withdrawal from appliance retailing, but we believe that this fear will prove to have been exaggerated, and that no real

● damage will be done to the Corporation's main role of supplying gas economically.

3. I should like to take this opportunity to assure you that our decision has been arrived at only after the fullest possible consideration of all relevant factors. I think the fact that the Government has been actively considering its response to the MMC report since July 1980 speaks for itself in this report. I know that David Howell and Sally Oppenheim have received representations from a very wide range of interested parties, and have held consultations with all the major interest groups, including the manufacturers, the unions and the Corporation.

4. In this context I do not accept, as you imply in your letter, that the Corporation have not been fully consulted. In response to a request from the Department of Energy in August 1980 following publication of the MMC Report, the Corporation produced, in September of that year, a detailed submission of the Corporation's views, running to some 50 pages, which Ministers took into account in forming their own initial views. There was no need for further consultation with the Corporation until the Government's own ideas had begun to crystallize. This position was reached only recently, but I know that in addition to a number of meetings between officials and representatives of the Corporation and exchange of correspondence, David Howell met you twice to discuss this subject before the Government reached its decision. I believe it is significant that none of the points which you raise in your letter of 24 June has not previously been put to, and considered, by the Government.

5. Finally, I hope ~~[now that the Government's decision has been announced]~~  
[once the Government's decision has been announced] that the Corporation will make every effort to see it implemented with the minimum disruption to consumers, employees and indeed the nation as a whole.

6. I am copying this letter, as you did yours, to David Howell.

DS

**CONFIDENTIAL**



10 DOWNING STREET

*From the Private Secretary*

6 July 1981

MMC Report on Gas Appliances

The Prime Minister has seen a copy of your Minister's letter of 3 July to the Chancellor of the Duchy enclosing a draft statement which she intends to make on Wednesday. The Prime Minister is content with the draft, subject to the Chancellor agreeing the references to legislation.

I am sending copies of this letter to the Private Secretaries to the Members of E, Murdo Maclean (Chief Whip's Office) and David Wright (Cabinet Office).

Peter McCarthy, Esq.,  
Office of the Minister of State for Consumer  
Affairs,  
Department of Trade.

SP

**CONFIDENTIAL**

ex/ Mr Wallen  
Mr Duguid

Papers  
underneath

211-6402

The Rt Hon Mrs Sally Oppenheim MP  
Minister of State for Consumer Affairs  
Department of Trade  
1 Victoria Street  
London SW1H 0ET

2 47  
6 July 1981

Dear Minister,

GOVERNMENT RESPONSE TO MMC REPORT ON DOMESTIC GAS APPLIANCES

As you know from what I said at E Committee on 23 June (Norman Lamont made the same points at E(DL) on 10 June, and in detail in a letter to you and others on 19 May), there has always been a risk of industrial action affecting gas supplies if we decided to follow any course along the lines of the MMC Report's radical option. We should not underestimate how serious this would be.

n The reality of this danger was underlined at a meeting which Norman Lamont had with the union leaders on Friday. I enclose a note of the meeting. The union leaders made it clear that they saw this primarily as an issue about jobs. The terms of the announcement of the Government's decision would therefore be a crucial factor and if they were presented with a stark choice between accepting our decision or resistance, with no scope for consultation, a strike would be inevitable.

In these circumstances I believe that it is essential that your statement should make clear that

- i. The number of jobs "at risk" is arguably far fewer than the 30-40,000 figures being bandied about by the unions. (We will be writing separately with the detailed arguments we can use in this respect);
- ii. Our decision will be implemented gradually and, over the five-year adjustment period, many if not most of the people currently directly employed in BGC's appliance retailing activities could be taken up by

an expanding private sector, absorbed into other parts of the Corporation's activities or accounted for by natural wastage;

- iii. We recognise the concern felt within the Corporation and by the unions about the possible effect on employment, and will carefully with the Corporation and the unions to minimise the impact on the workforce; and
- iv. Our decision will be implemented by means of new legislation.

The latter point is particularly important, in that it would make it credible for British Gas and HMG to argue that the proper course for the unions, if they object to our proposals, is to campaign against the Bill, and that there is thus no justification for strike action. I appreciate Francis Pym's reservations about committing ourselves to legislation but the fact is that a decision not to legislate in 1981/2 would mean postponing action on showrooms until 1983.

I am copying this letter to the recipients of yours.

*Yours sincerely,*

*Janeth Chadwick*

D A R HOWELL

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

PUSS/R

NOTE OF A MEETING WITH THE GAS UNIONS: 3 JULY 1981

Those Present:

Mr Lamont	PUSS (ENERGY)	Mr Edmonds	)
		Mr Irwin	) GMWU
Mr Macintyre	)	Mr Stirzaker	)
Mr Dart	) D/Energy	Mr Walsh	) NALGO
Mr Clayton	)	Ms Robaux	)
Mr Cooke	D/Trade		

Purpose of Meeting

The Gas Unions called on Mr Lamont to register their concern about the forthcoming Government response to the MMC Report on gas appliance retailing.

Union Reaction to Meetings with Mrs Oppenheim

2. Mr Edmonds explained that the gas unions were very worried after two recent meetings with Mrs Oppenheim. They felt that the Government had decided on its response to the MMC Report without taking due note of the likely union reaction, and without properly answering the unions' arguments.

3. Mrs Oppenheim had put forward three main arguments for curtailing BGC's retailing activities:

- (i) it would lead to wider consumer choice - particularly of cookers;
- (ii) it would lead to lower prices;
- (iii) it would stimulate the appliance manufacturing industry.

The unions had argued that these were not valid for the following reasons:

- (i) there was already a very substantial choice of gas cookers (about 40). This compared favourably with the choice of electric cookers and also with the choice of gas cookers in the rest of Europe where there was more competition;
- (ii) the MMC Report suggested that BGC's prices were too low, due to cross-subsidisation, not too high;
- (iii) if there was a substantial disruption to retailing activities, many appliance factories would close. Already contraction of sales by retailers such as Curries was putting severe pressure on manufacturers such as Valor. Closure of factories would reduce consumer choice.

4. In the face of these considerations, Mr Edmonds said that his members who had previously faced two revolutions in the gas industry with great credit and adaptability, were becoming increasingly bitter and angry about the Government's refusal to take their arguments seriously. They felt they were being punished for something which was not their fault. Implementation

of the "radical" option in the MMC Report would involve the loss of between 30,000 and 42,000 jobs, over time. The figure of 30,000 (which would apply if there was simply a direction to end appliance-retailing) included sales staff, stores personnel, appliance billing personnel, installers, transporters, and management. The figure of 42,000 would apply if BGC lost all work on the customer's side of the meter. The unions were not convinced by Mr Lamont's assurance that the Government would have regard to the employment situation in taking its decision. While the job losses were direct and obvious, the possible creation of any new jobs was highly uncertain. The private sector would only fill part of the gap. The argument that continuing consumer demand for appliances would ensure a compensating increase in private sector jobs was not valid. Demand would switch, for example, to electrical appliances (this had happened after conversion to natural gas).

5. In reply to a question Mr Edmonds said that the unions' preferred response to the MMC Report would be to implement very specific remedies to meet specific criticisms of BGC. For example, if BGC had abused its buying power, it should give an undertaking not to do so again. Similarly, showroom accounts should be separate in order to reveal any cross-subsidisation. The Government's intention to cut BGC's market share in retailing appliances was wrong. Mr Lamont disagreed, saying a reduction in BGC's market share could be a specific and proper remedy to the MMC's criticisms.

as a  
remedy  
in itself

6. On the possibility of privatising the showrooms, Mr Edmonds commented that they would not be viable if they only sold gas appliances, and in any case the showrooms would be very hard to sell in the present economic climate.

#### Industrial Action

7. Mr Edmonds said that BGC's employees would respond very badly to a "black and white" statement by Government detailing particular measures in response to the MMC Report. There should be proper consultations; the unions would be very ready to co-operate constructively - they were certainly not opposed to change. However if the Government were inflexible and if the unions' fears were realised then the union leadership had been given authority to organise total industrial action. This dispute would be of a different order to that in 1973, which was "only about money".

8. Mr Stirzaker repeated that the unions had put forward powerful arguments to Government. However if the Government was not prepared to listen, industrial action including the cessation of gas supplies was the alternative.

9. In conclusion, Mr Lamont said that he understood the unions' views, and in particular their fears concerning jobs. While he could not anticipate the Government's announcement, the employment consequences would be a major consideration.

J. P. Clayton

J P CLAYTON  
PS/PUSS (MR LAMONT)  
ROOM 1255 THAMES HOUSE SOUTH  
01 211 4953  
6 July 1981

CONFIDENTIAL

Chancellor of the Duchy of Lancaster  
and  
Paymaster General

*Mr Duguid*  
*Mr Walters*

6 July 1981

*Dear Sally,*

*27/7*

Thank you for your letter of 3 July. I am not yet convinced that legislation next Session will be essential for the purposes you have in mind, but we can consider that further in the context of the forthcoming QL discussion and David Howell's continuing contacts with the Chairman of the British Gas Corporation on this subject. In the meantime, I am content in principle for you to make a statement about the Government's intentions on Wednesday 8 July.

I am, however, worried about the length of the draft statement which you have sent me. My Private Secretary has already been in touch with yours to pass on my view that much of the content of pages 2-4 of the draft relating to the MMC's already published conclusions could with advantage be deleted. I also think that the final two paragraphs could be made more concise.

As far as any mention of possible future legislation is concerned, I would prefer the two references in the third sentence of paragraph 7 to be deleted and replaced by a general reference at the end of the statement saying that "the Government is considering whether legislation should be introduced at the appropriate time in order to enable these objectives to be achieved". This would avoid any commitment to legislation next Session, while making it clear to the BGC that we are prepared to take fresh powers if they refuse to accept a direction under existing legislation.

I am copying this letter to the recipients of yours.

*Francis Pym*

FRANCIS PYM

The Rt Hon Sally Oppenheim MP  
Minister of State for Consumer Affairs  
Department of Trade

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DEPARTMENT OF TRADE  
1 VICTORIA STREET  
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01 215 5662  
SWITCHBOARD 01 215 7877

From the  
Minister of State  
for Consumer Affairs  
The Rt Hon Sally Oppenheim MP

The Rt Hon Francis Pym MC MP  
Chancellor of the Duchy of Lancaster  
Privy Council Office  
Whitehall  
London SW1

*Prime Minister*

*Mrs Oppenheim intends to make the  
attached statement next Wednesday.  
Subject to Mr Pym agreeing the  
references to Legislation, content?*

*3 July 1981* *MAK*  
*31/7/81*

*Yes*  
*mb*

*D. Pym*

MTC REPORT ON GAS APPLIANCES

Thank you for your letter of 2 July responding to my request of 29 June for time for an early statement on this subject, in accordance with the decision reached in E Committee on 23 June that an announcement should be made by me, in consultation with David Howell, as early as possible.

I fully understand your preference for a statement to be made only after Legislation Committee has decided upon the legislative programme for the forthcoming Session, and I agree with you that if a statement could be delayed until then it would be possible to be far more explicit about the legislative implications of the Government's decision. Unfortunately, I do not believe that such a delay is possible. As you will have seen from today's newspapers, there is widespread (and, be it said, accurate) speculation on the nature of the Government's decision; and to my mind we cannot avoid answering this speculation with an early statement. In addition, you will probably be aware that in his letter of 1 July to Sir Denis Rooke consulting the British Gas Corporation and agreed in E Committee, David Howell has said that the Government's decision in principle is likely to be announced next week. Finally, I understand that the officers of the gas unions whom I met earlier this week have now told my officials, that, since an announcement appears to be imminent, they propose to hold a press conference on the subject early next week. For all these reasons I consider that an early announcement is now inevitable.

... I now enclose the text of the statement which I would propose to make. I have tried in this to meet your concern that no firm statement on primary legislation should be made until QL has been able to consider the interim 1981/82 legislative programme later this month. As a result I have made no more than very oblique references to the possibility of primary legislation, promising a further announcement

on/.....

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on these issues in due course. If you wish, I could try to curtail still further the reference to new legislation; although I have to say that I consider that the statement would be incomplete without some reference to the possibility of primary legislation, which has already been canvassed by David Howell in his letter to the Chairman of the British Gas Corporation. If I were pressed in Questions as to the nature, scope and timing of primary legislation I would propose to answer simply that the House would not expect me to anticipate The Queen's Speech but that, if legislation were required, the Government would want to move as swiftly as necessary. I hope that you are agreeable to an answer on these lines.

Our private offices have spoken about timing and I hope you can agree that although there are other statements on Monday and Tuesday you could consider our original request for one of those days if not that the statement can be made not later than Wednesday 8 July. In view of press speculation and other commitments I would be grateful for confirmation as soon as possible.

I am copying this letter to all Members of E, to the Chief Whip and to Sir Robert Armstrong.

*Jan Tuer*  
*Sally*

SALLY OPPENHEIM

CONFIDENTIAL

**DRAFT**

Addressed to :

**File No.**

Copies to :

Originated by:  
*(Initials and date)*

Seen by :  
*(Initials and date)*

Enclosures :

Type for signature of

.....  
*(Initials and date)*

**CONFIDENTIAL**

DEPARTMENT OF

CONFIDENTIAL

DRAFT STATEMENT

With permission, Mr Speaker, I should like to make a statement on the action which the Government has decided to take following the report of the Monopolies and Mergers Commission on the supply of certain domestic gas appliances, published last year.

2 It may be helpful to the House if I recall the main points arising from the Commission's report. Following a monopoly reference by the Director General of Fair Trading in 1977 the Commission reported in 1980 on the supply of domestic gas cookers, space heaters (i.e. gas fires) and instantaneous water heaters (though not central heating boilers). Their report (published 29 July 1980) concluded that:

- (a) the British Gas Corporation was a monopolist in relation to the retail supply of the specified gas appliances and that the exercise of this monopoly had operated and might be

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- 2 -

expected to operate against the public interest;

(b) Thorn Gas Appliances enjoyed a monopoly position in relation to the supply of cookers and that this had operated against the public interest by upholding the Corporation's monopoly and discouraging the growth of independent retailers;

(c) all the manufacturers belonging to the Society of British Gas Industries (SBGI) have so conducted their affairs as to restrict or distort competition and this had operated against the public interest.

3 The MMC's report made clear that they considered that the Corporation's monopoly had acted against the public interest by restricting competition in the retailing of appliances by virtue of their ability to demand advantageous terms from the manufacturers and by their ability to subsidise sales of appliances from the sale of gas. This, the Commission suggested, had limited the number of independent outlets, suppressed competition, and possibly had increased prices. Moreover, the Commission considered that the manufacturers had given undue weight to BGC's views on design; had accorded delivery and price preference to the Corporation; were over-dependent on the BGC's marketing of their appliances; and that indirectly this had led to poor

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- 3 -

export performance on the part of the manufacturers, reduced incentives to improve efficiency, and depressed investment.

4 These conclusions are set out at length by the Commission, who considered that the adverse effects of the monopolies that they had identified would be remedied by modifying the Corporation's position. In this respect they identified two main options but did not choose between them:

- (i) the "radical" course, by which British Gas should discontinue its retailing functions altogether, over the space of (they suggested) three years;
- (ii) the "gradual" course, in which the Corporation's accounting and other procedures would be changed with a view to reducing its dominance in the retailing sector and thereby its influence over the manufacturers. BGC would be obliged to avoid obtaining an unfair price advantage in purchasing and to allocate showroom and other costs scrupulously. In notes of preference, two members of the MMC group making the Report made clear that they favoured the gradual course.

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- 4 -

The Commission also considered (but rejected as an ineffective half-way house) the possibility of transferring gas showrooms, along with all the Corporation's retailing activities, to a new organisation, with separate accounting at arm's length from the Corporation's other activities.

5 As I told the House on 17 June, the Government has accepted the Commission's findings, and considered these options, and others, with great care, bearing in mind that the Government's objective and first responsibility must be to respond to and remedy the adverse findings in the Commission's report in a way consistent with the need to give consumers wider choice, better service, safety, availability and convenience, and at the same time to minimise as far as possible any adverse effects of any changes on our own manufacturing industry and the employees of the British Gas Corporation. In considering possible courses of action the Government has paid particular regard to the need to safeguard the essential services currently offered by the Gas Corporation in the field of gas safety and consumer advice, as well as the interests of consumers generally; and I should like on this occasion to repeat the statement which I made in the House on 17 June that no solution that failed to maintain safety, at at least its present level, that generally inconvenienced consumers, or that was seriously damaging to manufacturers, would be acceptable to the Government.

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6 Having considered carefully and consulted widely, the Government has concluded that the British Gas Corporation should withdraw from its current retailing operations but that the timetable of three years in the MMC's first option is too compressed a period to be consistent with the prerequisite to which I have referred. The Government has decided therefore that the Corporation should close (and dispose of) half of its showrooms within two years, a further quarter in the following year, and the remaining quarter in the following two years / The process of disposal would be completed in five years. In the Government's view this timetable would have the twin virtues of being gradual enough to avoid any sudden disruption of the gas appliance market, while short enough to meet the requirement for an urgent solution to the current problems and to attract private sector retailers to the new trading opportunities that would be created by a transformation of the market in the short term.

7 I need hardly say that the Government recognises that this programme of action will need to be matched by careful steps to preserve high standards of safety and skill - and I pay tribute to those who have displayed such skills in the Gas Corporation's sales and installation of appliances. I have already repeated my assurance that this is a prerequisite for the Government. The Government will take measures - including fresh legislation if necessary - to ensure the maintenance or improvement of existing design and installation standards for gas appliances, and the promotion - if necessary on a statutory basis - of an

/ on a basis which takes account of geographical and other factors.

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improved system for the registration of gas installers and the establishment of mandatory training requirements for their profession. A further statement setting out the details of these measures will be made in due course.

8 The Government is well aware that a change of the kind it has decided upon will represent a radical move away from the gas appliance market as we know it today. The Government knows that some aspects of the decision have been the subject of public concern. The Government recognises that in many areas this concern is deeply felt - notably the concern of the Gas Corporation's employees, of which the Government has taken careful note. I would like to say that the Government would not have reached the decision which it has reached if it did not believe it to be right, justified and necessary. We take the view that it is not only a right decision but an essential measure if the competition lacking in this important market is to be created and the damage caused by its absence remedied. We believe also that as this sector evolves away from its present monopoly dominated structure there will be positive benefits alike to the consumer and to gas appliance manufacturers, as competition between retailers develops to meet consumer needs and satisfy consumer demand, providing as enhanced competition always does, wider choice, higher standards and better service.



*cc.* A. Duquind  
A. Walters  
J. Vereker

PRIVY COUNCIL  
WHITEHALL LONDON SW1A 2JH

*Next fuel gas  
& electricity*

Chancellor of the Duchy of Lancaster

2 July 1981

2

*Prime Minister*

*Ms Oppenheim wants  
to make a statement  
next week. Mr Pym  
would prefer to delay until  
the legislative programme  
implications have been settled.*

*R  
M  
MS*

*Dear Sally*

*MA 2/vii*

Thank you for your letter of 20 June asking for my agreement to a statement next week about the retailing of gas appliances.

I appreciate your wish to make an early announcement of the decision reached by E Committee last week. However I suggest that it would be preferable for any statement to be postponed until QL Committee has had a chance to consider at the meeting now arranged for 13 July the likely implications for the rest of the legislative programme for next session of including measures to compel the British Gas Corporation to dispose of their retailing interests. If, however, you nevertheless feel it imperative to make a statement next week, it is clearly important that you should avoid any explicit or implied commitment to legislation on this subject next Session. It might be best to avoid mentioning legislation in the statement itself, but if necessary to say in response to any questions that the Government are looking at the legal position, and will consider bringing forward any necessary legislation when Parliamentary time permits.

I hope, therefore, that you will be prepared to postpone any statement until later in the month, but I suggest that we leave it to our two Private Offices to settle an appropriate time.

I am copying this letter to the recipients of yours, and to the Chief Whip.

*Yours truly  
Francis Pym*

FRANCIS PYM

The Rt Hon Sally Oppenheim MP  
Minister for Consumer Affairs  
Department of Trade  
1 Victoria Street  
London SW1H 0ET



From the  
Minister of State  
for Consumer Affairs

The Rt Hon Sally Oppenheim MP

**CONFIDENTIAL**

*cf Press*  
*TL to succ P.*  
*na*  
*MP 30/VI.*

*Not Int.*  
*cc Signid*  
*Walter*  
*Verker.*

DEPARTMENT OF TRADE  
1 VICTORIA STREET  
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01 215 5662  
SWITCHBOARD 01 215 7877

The Rt Hon Francis Pym MC MP  
Chancellor of the Duchy of Lancaster  
Privy Council Office  
Whitehall  
London SW1

29 June 1981

*D. Pym,*

Following the decision of E Committee on Tuesday 23 June with regard to the retailing of gas appliances and in particular the decision to make an announcement as soon as possible, with your approval I would propose to make such a statement next week. Both David Howell and I are concerned that the statement should be as early as possible next week to minimise the possibility of a leak and I should be grateful if you would let me know as soon as possible which date would be convenient.

I am copying this letter to all Members of E and to Sir Robert Armstrong.

*Yours Ever*  
*Sally*

SALLY OPPENHEIM

**CONFIDENTIAL**

26 June 1981

BF I enclose a letter Sir Denis Rooke has written to the Prime Minister about domestic gas appliances. The Prime Minister will want to reply to this herself and I would be grateful if you could let me have a draft, in consultation with the Department of Trade. It would be helpful to have this by Friday 3 July.

I am sending a copy of this letter and its enclosure to John Rhodes (Department of Trade).

TPL

Julian West, Esq.,  
Department of Energy.

Rob

jfh

26 June 1981

I am writing to acknowledge your letter of 24 June, which I have placed before the Prime Minister. You will be sent a reply as soon as possible.

TPL

Sir Denis Rooke, CBE, FRS.



2

10 DOWNING STREET

Prime Minister

This plea from

Dennis Rooker about the  
gas application issue came  
after the E decision.

I wish let you

have a reply.

amb

12

26.6.87

060  
BRITISH  
GAS



Sir Denis Rooke CBE FRs FENG  
Chairman

DER/BH

24th June, 1981.

The Rt. Hon. Margaret Thatcher,  
The Prime Minister,  
10 Downing Street,  
London, SW1.

**British Gas Corporation**

Rivermill House  
152 Grosvenor Road  
London SW1V 3JL  
Telephone 01-821 1444  
Telex 938529

*For Prime Minister,*

I am taking the unusual step of writing to you on a Departmental matter because I fear that Ministers are rapidly moving towards a decision without a full appreciation of the lack of a logical base for their decision and of the loss of public amenity that is likely to result.

I will not here argue the case against the Monopolies and Mergers Commission Report, but I should point out that its conclusions were drawn from an examination of a situation now more than four years old that had already ceased to exist. No positive recommendation was made. Instead two options were discussed; the first that the Corporation should progressively withdraw from appliance retailing or, the alternative, that there should be a further review of the accounting procedures covering the retailing activity to ensure that it was based upon fair competition. And notwithstanding that the Commission found against the Corporation it recorded that "the present practices of the Corporation have provided the public with a nationwide retail and advice service which the public has found of high value and which has concerned itself, to the great advantage of all, with ensuring that the supply of gas is safe."

Even during the Commission hearings representatives of the Corporation made clear that they believed in fair competition and were prepared to take whatever steps were felt necessary to establish a further protocol to demonstrate that the retailing activities were not cross subsidised. And in our response to the Monopolies and Mergers Commission Report we made clear to HMG our belief that adoption of the radical option would progressively undermine not only the Corporation's retailing activity but appliance fixing and maintenance as well. This would be much more serious

/and lead ...

and lead to the run down of a highly skilled labour force of some 30,000 with, we believe, growing implications for public safety.

Ministers have been considering all the responses to the Report in addition to our own and the Corporation has been awaiting consultation. It was therefore with considerable alarm that we heard of the Chancellor's reference in a speech to the National Consumer Congress in Swansea on 5th April, that the Government were considering the best way of ensuring disposal of our showrooms. The first formal discussion with me of the Government's overall view took place only on 9th June, at which time we made it clear to the Secretary of State for Energy that to make doubly certain that a charge of unfair competition could not be substantiated against the Corporation we were prepared to offer a comprehensive wholesale service to private sector retail outlets on the same terms as to our own outlets in addition to adopting the less radical option of the Monopolies and Mergers Commission. Since there are currently some 2,000 private outlets as against our 900 showrooms this was, we felt, a very far reaching offer which would ensure the free play of market forces without the dangers of disruption which could flow from enforced structural change.

We have been pressed to hive off, in addition, our retailing activity including our showrooms into a subsidiary company but, given the highly integrated nature of the sales and service organisation which we have been encouraged to develop over the years, we saw this as impracticable as well as highly uneconomic. Furthermore, activity analysis shows that 80% of the traffic to our showroom network is concerned not with the retailing of appliances but with customer services such as payment of accounts, enquiries, advice and complaints, and appliance service and maintenance matters. For example, despite the existence of many other means of payment, many customers still settle accounts through showrooms to the tune of £800 million/annum, half of it in cash.

We understand that Ministers are now minded to adopt a course even more radical than anything postulated by the Monopolies and Mergers Commission, namely, that the Corporation should withdraw from retailing and dispose of its showrooms over a 5-year period.

We believe that this will lead to a substantial loss of amenity for the 15 million domestic customers of

/the Corporation ...

the Corporation as well as have potential implications for public safety in the longer term. Overlying all this is a potentially disastrous industrial relations problem; the major trade unions of the Gas Industry have consistently threatened strike action if a radical option were to be adopted, feeling that the livelihood of tens of thousands of their members would be put in jeopardy. Throughout the lengthy Commission hearing and the period of intense speculation and Press comment that has followed we have managed to keep all employees at work and maintain full public services. I have had to warn Ministers, however, that I judge the union threats to be serious and them to be capable of causing a significant interference with gas supply if they do act in concert.

Finally, I should add that my Board is almost one-half composed of External Part-Time Members, the majority drawn from the private sector with experience in major companies such as Unilever, Marks and Spencer, BP, Rothschild's, etc. They have been intimately concerned with the development of the Monopolies and Mergers Commission affair and the whole Board has been unanimous in its decisions on the stance to be adopted. We are now all sad that British Gas is to be denied the opportunity of engaging in free and fair competition in the field of gas appliances, the medium through which our major product has to be deployed to millions of our customers.

I am of course copying this letter to the Secretary of State for Energy, the Rt. Hon. David Howell, MP.

*Tom Nicols,*

*Chris Raley*



CONFIDENTIAL

PRIME MINISTER

British Gas Corporation: Retailing of Gas Appliances  
(E(81) 68 and 69)

BACKGROUND

In their report of July 1980, the Monopolies and Mergers Commission (MMC) conclude that the British Gas Corporation's (BGC) domination of the gas appliances market acts against the public interest; BGC account for over 90 per cent of retail sales of gas cookers, fires and water heaters. The Commission allege that the arrangements inhibit competition in the retail trade and remove competitive pressure from the manufacturers.

2. When this issue was discussed by the Sub-Committee on Disposal of Public Sector Assets (E(DL)), Ministers agreed on the need to tackle the problems identified by the MMC but not on the best method of doing so - the Secretary of State for Industry's report to you of their discussion has been circulated under cover of E(81) 68. The Secretary of State for Energy's own views and proposals have been circulated as E(81) 69. The main alternatives so far identified are:-

- (i) The proposal by the Minister of State, Department of Trade (Mrs. Oppenheim) that BGC should be required to withdraw from gas retailing over 5 years, disposing of half of its 931 showrooms within 2 years, a quarter in the following year, and the remaining quarter in the final 2 years.
- (ii) The Secretary of State for Energy's alternative proposal is that BGC should hive off the retail sale of gas appliances into a separate subsidiary; that BGC should continue to buy gas appliances wholesale, but should sell them to reputable private retailers and its own subsidiary on the same terms; and that the retailing subsidiary should be sold to the private sector when practicable.

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3. As the Secretary of State for Energy points out in E(81) 69, both the manufacturers and the various consumer organisations are opposed to forcing BGC out of the business. They fear that, if retailers were to fail to respond to the challenge, the result would be increased imports at the expense of British manufacturers and of jobs; that consumers could suffer if safety regulations were inadequate; and that they would be inconvenienced by the disposal of showrooms which also serve as sources of advice and centres for the payment of gas bills. A majority of Ministers at the E(DL) meeting were, nevertheless, disposed to support Mrs. Oppenheim's proposal on the grounds that it was phased over 5 years, to give manufacturers and retailers time to respond, and could be operated flexibly. They were not convinced that the Secretary of State for Energy's proposals would stimulate private sector and retail activity: BGC's continuing presence in this market could deter private sector retailers from taking the risks of moving in; there would be difficulties in supervising and policing BGC's role to ensure that they were operating as intended - and the Office of Fair Trading could not take this on without increasing its manpower.

4. There are, as yet, no reliable estimates of the disposals value of the showrooms. Figures from £30 to £50 million have been suggested, but much turns on how much accommodation BGC would have to retain for dealing with consumer advice, bill paying and so on. E(DL)'s view was that, while disposals receipts would be useful, this was a less important factor than that of ensuring open competition in this market.

5. Although the majority of E(DL) were sympathetic to Mrs. Oppenheim's proposals, they recognised that these would involve a number of practical problems, in part real and in part whipped up by the campaign against radical changes which both the Corporation itself and the gas unions were conducting. In summary these difficulties are:-

- (i) Safety: public opinion would need to be satisfied that the installation and maintenance of gas appliances under any new arrangements would be safe and not vulnerable to fly-by-night operators; legislation could be necessary.

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- (ii) Industrial action by the gas unions: however deplorable, the risks of damaging and disruptive action cannot be ignored.
- (iii) Legislation: this problem derives from the Corporation's opposition to the proposals since, if they could successfully argue that a direction would be ultra vires, primary legislation would be necessary.

6. The problems of legislation are set out in the Annex to the Secretary of State for Energy's paper E(81) 69. As the Secretary of State explains, a final view cannot be taken until BGC have themselves formally stated their arguments. It seems probable, however, that to force BGC to sell their showrooms, without risk of challenge in the courts, will need new primary legislation. The Secretary of State for Energy also argues that new legislation will be necessary to deal with safety regulations, both for standards of gas appliances and for standards of installation and servicing. His own proposals would not require early legislation.

7. The Gas (Industrial and Commercial Supplies) Bill provides a possible vehicle for this in the 1981-82 Legislative Programme. When Cabinet discussed the legislative programme on 11th June, they were seriously concerned that this Bill would not be ready for introduction before February, and decided that its place in the programme would have to be looked at again unless it could be introduced considerably earlier. (CC(81) 22nd Conclusions, Minute 4). Even if this problem could be met, and Cabinet were to approve inclusion of the Bill in the programme, there would be difficulties in extending it to deal with the disposal of showrooms. There is no doubt that the measures would be contentious and that their inclusion would add to the problems of introducing the Bill and getting it through in good time.

HANDLING

8. You might invite the Secretary of State for Energy to introduce his paper first, and then ask Mrs. Oppenheim to put her counter proposals, (the Secretary of State for Trade is in Luxembourg). You might then ask the

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Secretary of State for Industry to speak, as Chairman of E(DL) and to advise the Committee on the implications of the alternatives for the manufacturers. The Chancellor of the Exchequer has a particular interest in the potential receipts from disposals; and the Secretaries of State for Scotland and for Wales on the implications for showrooms in their countries. The Attorney General can advise the Committee on how probable is the need for legislation (although he will be unable to give definitive advice until BGC have been formally consulted). The Chancellor of the Duchy of Lancaster will want to comment on the impact on the legislative programme, if legislation is necessary, and the Lord President of the Council on any problems in the passage of the Bill through the Lords.

9. In discussion the main points which you will need to cover seem to be:

- (i) Why is the experience of the gas and electricity industries so different? Electricity Boards have a similar network of showrooms to gas but face a vigorous and competitive private sector and handle only a small fraction of total sales of electrical appliances. Are there any clues to policy here?
- (ii) Assuming that the alternatives identified in the papers are the only ones available, which is likely to serve best the interests of consumers and manufacturers - with the answer turning largely on a judgment of how the retailers would be likely to respond to the challenge?
- (iii) How best to deal with the problems, real and otherwise, of safety under any new regime.
- (iv) The weight, if any, to be given to the threat of industrial action if the more radical option is adopted.
- (v) The problem of legislation.

10. If the Committee prefers Mrs. Oppenheim's proposal you will want to ask the Secretary of State for Energy to consult BGC urgently and formally with a view to establishing whether legislation is necessary; it seems that, in the meantime, the working assumption should be that it would be necessary and that the 1981-82 Legislative Programme would have to accommodate the measures.



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11. If the Committee prefers the Secretary of State for Energy's solution, he will need to consult BGC urgently and consideration will have to be given to how the new organisation should be supervised - note the point in paragraph 3 above that the Office of Fair Trading could not do this without taking on additional manpower.

12. Either way, the Secretary of State for Trade, or Mrs. Oppenheim, will want to make a statement as soon as possible on the action which the Government intends to take in response to the MMC's report.

#### CONCLUSIONS

13. In the light of the discussion you will wish to record conclusions on whether the Committee supports the course proposed by Mrs. Oppenheim (paragraph 2(i) above) or that by the Secretary of State for Energy (paragraph 2(ii) above). Either way the Secretary of State for Energy will then need to consult urgently with the BGC (paragraphs 10 and 11 above) and, following that, the Secretary of State for Trade will need to make a statement on the Government's response to the MMC report. The Cabinet will need to take account of the outcome in their further discussion of the 1981-82 Legislative Programme.

Robert Armstrong

22nd June 1981

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DEPARTMENT OF TRADE  
1 VICTORIA STREET  
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01 215 5662  
SWITCHBOARD 01 215 7877

From the  
Minister of State  
for Consumer Affairs  
The Rt Hon Sally Oppenheim MP

Norman Lamont Esq MP  
Parliamentary Under Secretary of State  
Department of Energy  
Thames House South  
Millbank  
London SW1

*DL*

*myl*

22 June 1981

MMC REPORT ON GAS APPLIANCES

I have not circulated a paper to E on this subject. As my colleagues will know I feel that my paper for E(DL) speaks for itself.

But last week's Supply Debate has pointed up certain aspects of BGC's activities which I consider will merit special attention in E. I am thinking of the commercial and consumer advice functions of the gas showrooms on the one hand, and the all important question of skilled installation and maintenance on the other. As to consumer advice, one point which was very properly highlighted in the Debate was that the gas showrooms, whatever advice they give to callers at the premises have telephone numbers which are ex-directory. This point, which I had previously encountered but never fully believed, surprised me greatly; and I should be grateful for your confirmation that it is true. If it is, that is an indictment of the so called widely available consumer services which the Corporation purports to offer. As to skilled installation and maintenance, I think it worth reminding colleagues of the point made in the MMC Report (paragraph 3.26) that the Corporation currently sub-contracts some 80-90 per cent of the central heating work for which it is initially contracted. If this work can be safely left in the hands of non-BGC installers, what is the hazard in such installers winning a wider share of the retail and installation market as a whole?

I am copying this letter to the Members of E, to Nigel Lawson and to Sir Robert Armstrong.

SALLY OPPENHEIM

CONFIDENTIAL

Ami British

Sheerness have made some progress ~~reached agreement~~ on securing lower electricity tariffs.

01 211 6402

Rt Hon Sir Keith Joseph Bt MP  
Secretary of State for Industry  
Ashdown House  
Victoria Street  
London SW1

19 June 1981

RL

19/6

Dear Sir

I wrote to you on 10 June about the position of Sheerness Steel in the context of the company's negotiations with SEEBOARD on electricity prices for 1981/82. This was referred to in our discussion of possible assistance to some large industrial electricity consumers at MISC56 last week and you and I were invited to consider the case for assistance to private sector steel firms such as Sheerness Steel. Our officials are in touch about this but in the meantime you will wish to see my latest exchange of correspondence with the Chairman of the company.

M The company has now reached agreement with SEEBOARD on prices but I understand Mr Schueppert is meeting his bankers and controlling shareholders today when a decision on the company's immediate future is expected. I understand the risk of ultimate closure remains serious and we can therefore expect the company to come back to us very shortly.

I am copying this correspondence to the Prime Minister and the Chancéllor of the Exchequer for information.

Yours  
David

D A R HOWELL

SECRETARY GENERAL  
10, MARK SQUARE, SOUTH  
MILBANK LONDON SW1P 4QJ

01 211 6402

C C Schueppert Esq  
Chairman  
Sheerness Steel Co Ltd  
Sheerness  
Kent  
ME12 1TH

19 June 1981

*See Mr Schueppert*

Thank you for your letter of 11 June. I am pleased to learn that you have made some progress on prices with Seeboard. I hope you have found this of some help but I appreciate it does not eliminate the electricity price disparity between your prices and those available to some of your competitors in Europe.

I do of course recognise the important influence on these disparities of the exchange rate factor to which you rightly draw attention and I have noted your comments. The Government remains concerned about the situation and I am keeping a close watch on developments. As I have said in our earlier correspondence I do understand the importance of energy costs to your company.

*Yours sincerely*

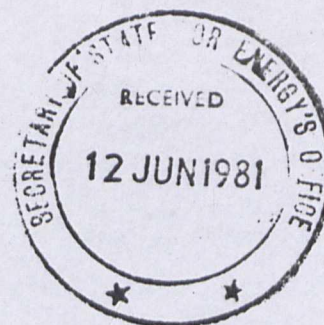
*David Howell*

D A R HOWELL



8/16

11th June, 1981



The Rt.Hon David Howell, MP,  
Secretary of State for Energy  
Department of Energy  
Thames House South,  
Millbank,  
London, S.W.1.

SECRETARY OF STATE'S OFFICE

TO MR PASH

FOR ADVICE (AND  
DRAFT REPLY IF  
APPROPRIATE)

PLEASE BY:  
23/6/81

Copies to  
MR PASH  
MR PUS  
MR DANIEL  
MR JONES  
MR C. JONES  
MR MACINTYRE  
MR DAVIS  
MR AGRELL  
MR VERABLES

**SHEERNESS  
STEEL**

Dear Mr. Howell,

Thank you for your reply to my letter concerning energy costs.

We have now had a further meeting with Seeboard and have made a small amount of progress but nothing which could be considered significant in comparison with the premium we pay above European electricity prices. If we stay on Category 'B' our 1981/82 rates will rise 15.7 percent. By switching to Category 'C' the rise is reduced to 3.7 percent, but after adding back the cost of interruptions which are estimated to involve 200 occasions per annum of 1½ to 2 hours duration, this year's increase rises to about 13 percent.

After discussing with the Chairman of Seeboard, Mr. Peddie, the £45 million assistance provided by the Government to assist bulk consumers, I am inclined to agree with him that permission to increase borrowing in no way eases the Electricity Board's ability to reduce prices without compromising their return on investment objectives. In any event, Government subsidy in any form is merely an expediency which does not confront the fundamental reasons why our energy intensive industries are suffering so badly at the present time.

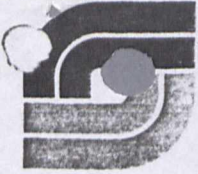
What the energy intensive industries require is some movement in economic policy from the present dollar/petroleum orientation to an EMS/coal orientation. The changes need not be radical, for even small adjustments in policy will have a perceptible effect on bringing Sterling into a more favourable alignment with European currencies. We should, for example, be much more concerned about the 12 percent borrowing rate in Frankfurt and less worried about a 20 percent prime rate in New York when deciding whether MLR is too high or too low. We should keep up North Sea oil production even if it does contribute to a worldwide reduction in oil prices. We should announce our intention to re-examine entry into the EMS including the dedication of substantial monetary reserves to protecting the stability of European currency relationships.

Cont'd...

Directors

C. C. Schueppert (U.S.) Chairman & Chief Executive P. A. Learmond Deputy Chairman & Commercial Director Sir John Coulson K.C.M.G.  
A. J. Hamilton (Cdn) G. R. Heffernan (Cdn) M. M. Koerner (Cdn) B. D. Oram W. H. Philipp (U.S.) L. H. Schipper (Cdn)  
F. G. Winspear (Cdn)





The Government will obviously have to take important decisions the next few weeks to counter the growing imbalance between American and European interest rates. I hope that you will be among those who recognise the crucial significance of these decisions to the immediate future of our energy intensive industries.

Sincerely Yours,

*C.C. Schueppert*  
C.C. Schueppert

c.c. Mr. Roger Moate, MP

# SEBOARD

SOUTH EASTERN ELECTRICITY BOARD, 329 PORTLAND ROAD, HOVE, EAST SUSSEX, BN3 2LS

TELEPHONE BRIGHTON 724522

FROM THE DEPUTY CHAIRMAN

16th June 1981

Dear Mr. Schueppert,

Thank you for your letter of 11th June.

As you probably know, Mr. Fuller visited your works last Monday and discussed with Laurie Palmer the proposed terms in detail, which I understand he was prepared to recommend that you accept.

The effect on electricity prices alone is indicated in the table given below.

Year	Annual kWhs x 10 <sup>6</sup>	Terms	p/kWh Exc.Fuel	% decrease on 1980/81 prices	p/kWh Inc.Fuel (80/81 £38.10) (81/82 £44.40)	% increase on 1980/81 prices
1980/81	319.202	LM 'B'	2.3654p	-	2.4926p	-
1981/82	286.000	LM 'B' & 'C'	2.2466p	5.02	2.6320p	5.59

I acknowledge that the overall benefit you will receive will be affected by the interruptions to production from load reduction warnings, the consequences of which you only are in a position to assess. I understand that you will plan to minimise the effects of these. In connection with this point I confirm that at present the Category 'C' interruptions are all inclusive, applying to all Category 'C' customers. However, if in the future the total load under Category 'C' substantially increases the CEGB may be in a position to offer a scheme involving two or more groups of customers with the result that the disruption to production schedules could be less frequent. You may recall we discussed this possibility at our recent meeting.

I note what you say regarding the level of pricing that you feel you need to be viable and note that you have addressed a letter to the Secretary of State for Energy on this point.

/Contd.

With regard to the present arrangements for credit for your company, I look forward to receiving from Mr. Shirley a copy of your financial projections and immediately these are received I will ask my Deputy Chief Accountant to discuss with him how we might move to improve the present position.

Incidentally, Mr. Fuller noticed on his visit that all the yard's lighting was still on during the daytime.

Yours sincerely,

Deputy Chairman for  
Chairman

C.C. Schueppert, Esq.,  
Chairman and Chief Executive,  
Sheerness Steel Co. Ltd.,  
Sheerness,  
Kent.



*E from Mr.*

*K13/b.*

**British Gas Corporation**  
Public Relations Department

Rivermill House  
152 Grosvenor Road  
London SW1V 3JL

Telephone 01-821 1444  
Telex 938529

*12*

GAS APPLIANCES

Attached are notes summarising British Gas views on some of the issues raised by the Monopolies Commission Report on the retailing of gas appliances.

- Page 1 - Summary
- Page 2 - The Monopolies Commission's Conclusions
- Page 3 - British Gas Reaction to the 'Options'
- Page 4 - Miscellaneous Facts
- Page 5-7 - The Case Against the Extreme Option
- Page 8 - British Gas Advice to Workforce.

Further Information: British Gas PR Department.

Home Nos. Fred Plowman - 01-529 4594  
Hugh Steele - Crayford 521877  
Alan Sharpe - 01-675 2505

## SUMMARY

The effects of the Government adopting the extreme option contained in the Monopolies Commission Report would be disastrous - for everyone, customers, employees, British industry.

### Safety and Standards of Service Will Drop

The elimination of appliance sales would also end progressively the British Gas role in respect of installation and service work. This would be taken over by people who would be most unlikely to have the same high standards or back-up facilities.

### A Blow to British Industry

Already the manufacturers of gas appliances have been forced to introduce short-time working. Any reduction in British Gas marketing would result in some firms closing, with huge loss of jobs. The door would be wide open to foreign competition.

### Customers Would Lose Their Point of Contact

Our 900 High Street showrooms are far more than just retail outlets. People pay their bills there; obtain advice on energy costs, conservation and safety, make service arrangements and report emergencies.

### Customer Choice Will Be Curtailed

Independent retailers concentrate on selling a few lines that bring high turnover and quick profit. Gas showrooms offer a comprehensive range of British appliances, developed through their knowledge of customer needs.

### Jobs Will Be Lost

Up to 40,000 British Gas employees would lose their jobs. So too, would thousands of workers in the appliance manufacturing industry.

THE REPORT'S CONCLUSIONS

Two and a half years after starting its enquiry, the Monopolies and Mergers Commission produced a 135-page Report which set out two main "options" for action but made no recommendations for either. Instead it left the choice to Government which would have to take "political considerations" into account.

The options were:

an extreme or "radical" one that British Gas should be forced to stop selling any appliances to its customers, and

a "less radical" proposal to leave the Corporation with its existing powers but subject to new and detailed arrangements designed to secure the financial independence of retailing from the BGC's other activities and fair and effective competition between BGC and other retailers.

The Report stated that making a choice between these courses was unusually difficult, but two of the six members of the Commission's team supported only the less radical option at this stage.

BRITISH GAS REACTION TO MONOPOLIES COMMISSION'S "OPTIONS"

Most attention has been focussed on the implications of the Commission's extreme option - the ending of regions' retailing operations. That's understandable since it implies the most dramatic changes.

British Gas is totally opposed to such a move.

But no-one should be in any doubt that British Gas has the long term interest of customers at heart and will resist change which is against that interest.

The gas industry's record of adaptability in recent decades gives the lie to any accusation that British Gas, by its stance, betrays a "dog in the manger" attitude.

The industry's growth and profitability - and the enormous contribution it now makes to the nation's energy supplies and the economy generally - is founded on successful adaptation to change.

Any organisation, especially in today's fast-changing society, must be dynamic and must adapt to changing circumstances.

The Corporation's reaction to the "less radical" of the Monopolies Commission's options - to change accounting and other procedures to reduce our influence on the trade - should be seen in that light.

In its response to the Government, the Corporation has made it clear that British Gas has nothing to fear from fair competition. It said the "less radical" option was complex and would be difficult to implement. Moreover the main principles were already embodied in the Corporation's current practices and assurances that this would continue to be the case have been given to the Government.

The Corporation stated that it was certainly willing to explore the less radical option with Government to see what more can be done to satisfy the Government and the Office of Fair Trading about its intentions.



POINTS

- \* Each year people make 60 million visits to gas showrooms.
- \* Every year 8 million people visit showrooms simply to buy gas savings stamps, and over 6 million make general or service enquiries. About 3 million are on appliance sales but they spend some £170 million doing so.
- \* British Gas carry out 15 million service jobs every year - that's 1,712 for every hour of every day.
- \* Last year, the 6,000 British Gas Domestic Sales staff sold 1,300,000 appliances (excluding central heating) valued at some £200 million.
- \* Customers at British Gas showrooms can choose between 30 models of free-standing gas cookers. A similar choice is available through privately owned Authorised Dealers of British Gas.
- \* The irrecoverable cost to British Gas Customer Service of its work in customer and public safety last year was £27 million.
- \* Last year British Gas service staff discovered 196,000 potentially lethal installations. Any accident causes concern, but without those discoveries by our expert staff, how many more people would have died?
- \* British Gas is called on to service any one of over 8,500 different appliance models. Of the 34 million appliances in use, 24 million are of models no longer in production.
- \* On the British Gas Sales List there are 149 different models of cookers, built-in appliances, fires, wall heaters and water heaters, 132 of them are UK manufactured; 17 are manufactured abroad.
- \* Private retailers rarely display more than 10 cookers, or 4 or 5 fires.
- \* Last year British Gas service-men did over 15 million jobs.
- \* There exist an estimated 2000 private retail outlets dealing in gas appliances.

THE CASE AGAINST THE EXTREME OPTION

The Monopolies Commission investigation concerned itself with representations from the private sector about the retailing market between 1974 and 1976, and dealt generally with a situation which is now at least five years old.

There are no unfair trading practices which place independent retailers at a disadvantage. There is no impediment to any private or independent retailer from entering the market if they have the will to do so. Figures show the extent to which the private sector has expanded its operations in gas appliance retailing, both during and since the Monopolies Commission investigation. However the fact remains - and it is not one for which we need to make any apology - that the total market was largely established through the promotional activities of British Gas in its retail operation.

British Gas is fundamentally concerned with gas appliances - not just their purchase and sale, but also their safe and efficient use in the home by virtue of its supply responsibilities.

We do not believe that we could carry out these duties as effectively if our integrated business is fragmented and for no good economic reason.

Since last autumn all the signs show that there is little or no support for extreme action from any source - appliance manufacturers, customers or the trade.

The Department of Trade has been trying to find out whether retailers would be prepared to sell gas appliances should British Gas activities be restricted.

Our concern is that the results of those enquiries, which do not ask private traders to quantify their likely volume of business, could be used to discount the views which have been expressed by both gas appliance manufacturers and the Corporation, that if we were forced out of the business, the appliance market will deteriorate significantly.

British Gas currently stocks, displays and sells some 36 different models of cooking equipment and 46 room heaters and gas fires. Many private retailers would undoubtedly select a range of appliances which they could sell in volume, but nevertheless a range narrow enough to avoid the problems of in depth spare part stocking and warehousing, etc.

If British Gas were no longer to be involved in this business the range of appliances which manufacturers would produce and which retailers would display, stock and sell would shrink. Manufacturers' costs would increase and sales fall as a result of reduced promotion and advertising, and the nature of independent retailing. Gas would compete with electricity at point of sale where the problems of installation, ventilation and flueing which are unique to gas, would place gas appliances at a disadvantage.

British Gas is convinced that the "extreme" course, if adopted by Government, will lead to a serious reduction in the market. The great majority of gas appliances sold in this country are, unlike most other consumer durables, made by British companies in Britain. If the market were to contract we would expect to see a drastic reduction in the number of manufacturers, and a progressive switch of investment and resources from gas appliances into other products.

There can be no doubt about this in view of the fact that several gas appliance manufacturers have been in serious difficulties during the past twelve months as a result of the recession. Furthermore, in the early part of last year when British Gas reduced advertising and promotion following the 1979 oil crisis, this had an immediate and dramatic effect on the gas appliance market. Normal levels of promotion have since been resumed and the market responded accordingly.

In the event of disarray and withdrawal on the part of the UK manufacturers there is no doubt that imported appliances will progressively take over the depleted market and, in the absence of a direct participation by British Gas, could do so without any commitments on availability of spare parts, quality and performance standards other than conformity with EEC standards which already help the free flow of appliances into this country.

It is difficult to speculate about the total effect and the disruption to the Corporation's present integrated operation which the extreme action would bring about. However, we would progressively lose our influence in such areas as performance, efficiency and safety standards through appliance approval and testing facilities and line service work and research and development currently undertaken by the Corporation at its test house.

Moreover, there would be a progressive deterioration in any British Gas ability to install and service new appliances, to undertake in-depth spare parts stocks and undertake diagnostic services. In short, there would be a serious and progressive impact on the customer service operations of the Corporation. It is worth pointing out that on the Continent where the gas supply companies have never been involved in appliance retailing their service work is essentially limited to the inlet of the meter. The only work carried out on the customer's side of the meter for internal pipework or appliances is a make-safe service in the event of a reported gas escape, and this usually is simply to turn off - everything else being referred back to someone else.

It is unbelievable that the best interests of 14 million showroom customers to whom we sell nearly  $1\frac{1}{2}$  million appliances and for whom we carry out 15 million service calls each year, who pay £800 million for gas over the showroom counter, £400 million of it in cash, are going to be better served by wholesale disposals or closure of gas showrooms and the forcible withdrawal of British Gas from appliance retailing.

There is a host of major uncertainties surrounding the extreme option - for example:-the extent to which showrooms could be retained economically and customer service could be provided; the very real problems which phased withdrawal would present and still leave substantial risk of market dislocation; deterioration and reductions in standards of safety and service.

In our response to Government we have emphasised our very real concern about the implications for safety. And in briefing officials we have continually stressed the safety implications.

Also is it sensible or practical to have the gas and electricity industries operating on a wholly different basis? Removing the right of the Corporation to retail appliances would hinder the rational development of the gas industry and would take away its ability to compete freely with other fuels.

It is heartening to note the traditional loyalty of the British Gas workforce. Over the past nine months, services had been maintained and this must reflect the fact that employees cannot in the end bring themselves to believe that the extreme course of action is either justified or practicable. The feelings must be appreciated of a large number of people whose entire working life has been dedicated to the provision of an important public service, and whose performance had not been criticised in any way by the Monopolies and Mergers Commission Report, or indeed the Price Commission Report which preceded it - indeed quite the contrary.

There are some 38,000 people engaged directly in British Gas or indirectly in appliances retailing and customer service, and a further 7,000 in supporting services - stores, transport, customer accounting etc, who are directly concerned with this issue. But it does affect everyone in British Gas.

BRITISH GAS ADVICE TO WORKFORCE

The Corporation has already made clear to the Government that, despite the threat hanging over their prospects, the British Gas workforce, with its traditional sense of loyalty and public duty, has fully maintained all public services.

British Gas has stressed that it is imperative that this continues. The case rests squarely on the value to the community of this service.

So its message to all members of staff has been: "Get on with the job".

As well as the uncertainty of the Monopolies Commission issue, the sales and service functions have been faced with the slump in appliance sales and installations, caused first by the flight from oil and the stopping of all promotion, and quickly thereafter by the recession.

A return to vigorous promotion last year boosted sales considerably. Further product advertising is appearing now, nationally and regionally and more is on the way.

This is being backed by an intensive background advertising campaign on TV and in the Press designed to show the many services provided via showrooms by the integrated gas industry.

All this, however, will not keep the industry on the success trail without the continuing hard work and enthusiasm of all employees.



PARLIAMENTARY UNDER  
SECRETARY OF STATE

DEPARTMENT OF ENERGY  
THAMES HOUSE SOUTH  
MILLBANK  
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Peter McCarthy Esq  
Private Secretary to the  
Rt Hon Sally Oppenheim MP  
Minister of State for Consumer  
Affairs  
Department of Trade  
1 Victoria Street  
London  
SW1H 0ET

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MAD

17 June 1981

Dear Peter,

SUPPLY DAY DEBATE: MMC REPORT ON GAS APPLIANCES

Further to my letter of this morning concerning Mrs Oppenheim's speech in this afternoon's debate our Ministers discussed Mr Lamont's proposed amendment on page 22.

Mr Lamont suggested the following compromise wording: "However various the range of possibilities one conclusion from the report is inescapable namely that competition in this market must be dramatically increased."  
Mrs Oppenheim did not accept this proposed compromise.

I have been asked by Mr Lamont to place on record that he does not agree with the line Mrs Oppenheim has decided to take, for the reasons set out in my letter of this morning.

I am sending a copy of this to William Ricketts at No 10.

Yours ever  
Jeremy Clayton

JEREMY CLAYTON  
Private Secretary



PARLIAMENTARY UNDER  
SECRETARY OF STATE

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Peter McCarthy Esq  
Private Secretary to  
Rt Hon Sally Oppenheim MP  
Minister of State for Consumer Affairs  
Department of Trade  
1 Victoria Street  
London  
SW1H 0ET

17 June 1981

SUPPLY DAY DEBATE: MMC REPORT ON GAS APPLIANCES

Thank you for your letter of 16 June covering a copy of the speech which Mrs Oppenheim is proposing to give in this afternoon's debate.

Subject to the following amendments, Mr Lamont is content with the speech as drafted:

- Dear Peter,*
- R*
- with R?*
- (i) Page 22. Replace by "However various the range of possibilities there are strong arguments against the present market dominance by BGC." (As originally drafted this page would pre-empt our Secretary of State's option because it implied that the Government objective would be to reduce BGC's share by Government action rather than allowing market forces to work.)
  - (ii) Page 23. Delete "face"; replace "in" by "is"; delete "disposal".
  - (iii) Page 29. Delete second sentence and replace by "in addition the Corporation would sell to reputable dealers appliances on the same terms as they are made available to showrooms." (this is more accurate.)
  - (iv) Page 49. Delete last 4 lines (they are wrong).



- (v) Delete pages 54-57 (this passage debases the 3 year training given to gas fitters whether BGC's or the private sectors; also, there is no evidence to support the statement on Page 56).
- (vi) Delete P71 and 72 (these are an open invitation to industrial action.)

I can also confirm that we are content with Mrs Oppenheim's draft Government amendment to the Opposition's motion subject to the addition of "domestic" before "gas appliances" in line 3.

I am sending a copy of this to William Ricketts at No 10.

*Yours*  
*Jeremy Clayton*

JEREMY CLAYTON  
Private Secretary





DEPARTMENT OF TRADE  
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From the  
Minister of State  
for Consumer Affairs

The Rt Hon Sally Oppenheim MP

*WPA  
16/6*

Jeremy Clayton Esq  
Private Secretary to  
Norman Lamont Esq MP  
Parliamentary Under Secretary of State  
Department of Energy  
Thames House South  
Millbank  
London SW1

16 June 1981

*Dear Jeremy,*

SUPPLY DAY DEBATE: MMC REPORT ON GAS APPLIANCES

- ... I attach a copy of the speech which Mrs Oppenheim is proposing to make in tomorrow's debate on the Monopolies & Mergers Commission's report on gas appliances. I apologise for its bulk. Our officials have discussed the gist of the speech which I hope will be broadly acceptable. I should be grateful if you could let me have any comments as soon as possible.
- ... I am also enclosing a copy of a draft Government amendment to the Opposition Motion. This will have to be tabled tonight and again I should be grateful for urgent comments.

I am sending a copy of this to William Rickett at No.10.

*Yours ever,  
Peter McCarthy.*

PETER McCARTHY  
Private Secretary

I must say listening to the Rt Hon  
Gentleman's uncharacteristically intemperate  
and ill-researched opening remarks - one  
could be forgiven for thinking that  
the House was debating a proposal  
hatched up by some extreme right wing  
caucus in the Conservative Party, with  
the sole aim of completely dismantling  
a nationalised industry.

We are not!

What we are debating is an extremely thorough report following an extremely thorough examination by a completely independent body free of any Party political identity - the Monopolies and Mergers Commission - in response to a reference made under the previous Government, published last July after three years of exhaustive investigations.

A report which concludes that the Corporation's monopoly has acted against the public interest by restricting competition in the retailing of appliances, by virtue of their ability to demand advantageous terms from the manufacturers and by their ability to subsidise sales of appliances from the sale of gas.

This, the Commission suggest, has limited the number of independent outlets, suppressed competition, and has possibly increased prices.

The Commission considered too, that the manufacturers had given undue weight to BGC's views on design; have accorded delivery and price preference to the Corporation; are over dependent on BGC's marketing of their appliances and that indirectly this has restricted and distorted competition, deprived consumers of the benefits of competition, reduced incentives to improve efficiency, depressed investment and has led to poor performance on the part of the manufacturers.

There are also criticisms of the monopoly enjoyed by some manufacturers of gas appliances, but the recommendations in this regard were far less trenchant than in relation to the BGC.

So consumer choice has been limited,  
prices have been higher than they  
might otherwise have been and the  
competitiveness and investment policies  
of manufacturers and their readiness  
to respond to consumers wants and  
needs have all been seriously undermined  
by the dominant position and dominating  
behaviour of the BGC, in the opinion  
of the MMC.

7

That is what we are debating, those very disturbing findings and the Government and the Opposition's reaction to them.

We have just heard the Opposition's reaction - it is quite plainly to reject the consumer interest in favour of the entrenched public sector monopoly and union pressure.

I welcome this occasion to discuss the Government's reaction and to deal in greater detail with some of the MMC's findings.



First however I wish to express my concern and that of my Rt Hon Friends at the scare campaign waged by the BGC and others, reinforced this afternoon by the RHG, - about the possible consequences of certain courses of action (if they were to be decided upon by the Government), on safety, service, availability of gas appliances and convenient access for consumers to advice and account paying facilities.

This propaganda campaign is quite  
unwarranted as I shall show and was  
clearly calculated to evoke unjustified  
fears on the part of the public.

And my Rt Hon Friend the PUSS  
for Employment has already condemned  
it.

It does not attempt to answer the criticisms made by the MMC.

It takes no account of the fact that the Government is bound to seek a solution to the problems identified by the Commission.

10a

shortly.

shortly.

Let me make it absolutely clear at the outset and in response to that campaign - no solution which failed to maintain safety, at at least its present level, and which limited availability of supplies, which generally inconvenienced consumers or which was seriously damaging to manufacturers would be acceptable to the Government and I shall go further into these matters in detail shortly.

I will not go through all the areas of investigation covered by the MMC report.

Although I shall return to some specific matters later.

But I should like to set out for the House the three important findings which it made which the Government has accepted and on which the Government feels bound to act:-

a) the British Gas Corporation  
is a monopolist in relation  
to the retail supply of  
specified gas appliances and  
that this has operated and  
may be expected to operate  
against the public interest;

b) some gas appliance manufacturers  
enjoy a monopoly position in  
relation to the supply of  
cookers and that this is  
against the public interest;

c) all the manufacturers belonging  
to the Society of BGI have  
so conducted their affairs as  
to restrict or distort  
competition and this has operated  
against the public interest.



These conclusions are set out at length in the report; and taken together they offer an impressive - and depressing - testimony to the power of a monopoly buyer (in this case a public sector corporation) to institutionalise lack of competition in an industry, and inadequate response to consumer needs.

In the Government's view it is  
essential from the point of view  
of competition policy that a  
vigorous remedy should now be found.

This was also recognised by the  
MMC, who considered that the adverse  
affect of the manufacturers' monopoly  
that they have identified would be  
remedyed by modifying the Corporation's  
position.

In this respect they identified  
two main options but did not choose  
between them:-

i) the 'radical' course, by which

British Gas should discontinue

its retailing function altogether

over the space of (they

suggested three years);

ii) the 'gradual' course in which the Corporation's accounting and other procedures would be changed with a view to reducing its dominance in the retailing sector and thereby influence over the manufacturers. BGC would be obliged to avoid obtaining an unfair price advantage in purchasing and to allocate showroom and other costs scrupulously.

These are two widely differing  
recommendations and the Government has  
considered them very carefully along  
with other alternatives which give  
a comprehensive range of options.

But however various the range of possibilities one conclusion from the report is inescapable namely that the dominant position of the British Gas Corporation in this market must be - at the very least - dramatically reduced - although no final decision has yet been taken on the precise means.

I think it will help the House  
if I am as candid as I can be  
on the types of choice which face  
the Government in considering disposal.



At one end of the spectrum is the  
'radical' course suggested by the MMC,  
that the British Gas Corporation should  
discontinue its retailing function  
altogether over a three year period.

There is no doubt in the  
Government's mind that this course would  
rapidly resolve many of the problems  
in the market as identified by the  
Commission.

But the problem with this course is that it has an extremely compressed timetable.

And here I wish to reiterate what I said earlier.

The Government is determined that whatever course is adopted there will be no lowering of standards of safety in installation and maintenance and the standards of consumer advice offered by the Gas Corporation to gas consumers.

No option which includes a timetable  
so compressed that essential services  
were disrupted and the consumer interest  
suffered would be acceptable.

Wider than that, there is a  
legitimate interest by the domestic  
gas appliance industry in ensuring a  
minimum market disruption in any  
transition to a new market structure.

Which incidentally is long overdue!

The Government are considering alternative options.

I am sure the House would agree that the Government should research as fully and consult as widely as possible before reaching a decision.

The gist of two of the options which are among those currently under consideration including the MMC's own options are the following:-

i) that the BGC should be required to withdraw from gas retailing over a longer period than that proposed by the MMC subject to ensuring that there was convenient accessibility for consumer advice and bill paying retained and that safety standards for the installation and maintenance of gas appliances were also maintained either by means of a voluntary or statutory code;

ii) another option also being considered is that BGC itself should set up the retail sale of gas appliances into a separate subsidiary. The Corporation itself would continue to buy gas appliances wholesale, but would sell them to reputable retailers to sell on whatever terms retailers choose.

In considering these options the Government have to bear in mind certain particular points made in the MMC report in arriving at its very serious conclusions about the abuse of a dominant market position and the restriction and distortion of competition.

The report highlights a number of damaging contributory abuses which serve as almost classic examples.

Manufacturers have had pressure put upon them by the Corporation to offer progressively higher discounts (13.17 at page 88) to the Corporation but not to others.

Manufacturers dominated by one purchaser and at the mercy of its purchasing policy have been reluctant to invest (13.25 page 90).



Consumers have suffered because the range of appliances available have been more limited than they would otherwise have been, and are in other countries.

Manufacturers have been slow to anticipate and respond to consumer demand, which could provide a ready market for imports. (13.27, page 91).

Manufacturers spares and supplies systems  
have been adapted to the requirements  
of the BGC (13.30) private sector  
retailers have been made to suffer  
delays in the supply of goods- and  
spares and in some cases have been  
denied access to certain models  
altogether.

The whole far too cosy relationship  
between the BGC and the manufacturers  
has disadvantaged private retailers,  
driven some out of the field  
altogether, discouraged new entrants  
and certainly harmed the consumer  
interest.

Very importantly numerous complaints  
(13.33 page 92) were received by the  
MMC from independent retailers that  
deliveries from certain British  
manufacturers were unreliable because  
BGC had first call on supplies.

Moreover the independent sector  
although buying appliances at prices  
substantially higher than the BGC  
already sell at prices below and  
sometimes substantially below selling  
prices in BGC's showrooms (13.70).

While in some cases aggressive tactics were employed locally in some regions, in one case a retailer reported to the MMC that local showroom staff attempted to undermine public confidence in the private sector retailer (13.55 page 96).

Finally the report says:-

"The consumer has suffered from the fact that the Corporation has become in practical terms the sole decision taker. Even if all its decisions have been prudent and public spirited (we have no reason to doubt that over the entire field of its activities the majority have been both) they are no adequate substitute for the choice provided in a competitive situation."

Mr Speaker all this is a massive  
indictment of the status quo which  
no responsible Government could ignore.



I turn now to some of the  
points raised by the Rt Hon  
Gentleman this afternoon and others,  
which appear in the Motion, which  
may lead to misunderstanding and  
groundless fears.

The Rt Hon Gentleman referred a number of times to the possible consequences of some of the various options outlined in the MMC report if these were pursued not because these are necessarily the likeliest option and by inference too to those that might ensue following any disruption or change in the retail supply installation and maintenance of gas appliances, arising out of any of the options or whatever course of action was chosen.

I re emphasise no decision has  
been taken yet by the Govt but  
whatever decision the Govt. does take  
I think it only fair to those  
already operating in the private sector,  
who have by implication been impugned  
by such remarks, to set out some  
of the facts, while in no way  
anticipating the Govt's final decision.

First and foremost safety!

Of course it is understandable that  
there should be fears on this score  
and the Govt fully appreciates and  
accepts as I have said the  
importance of this aspect of any  
solution.

But I feel it important to dispell  
any unwarranted fears aroused by the  
Rt. Hon. Gentleman's remarks among  
those already purchasing or about to  
purchase appliances from private  
sector retailers and at the same  
time to set the record straight  
about the status quo in terms  
of sales and service in the Gas  
                  **themselves**  
Showrooms (at present) and also to  
say a word about the manufacturing  
industry.

The implications being that the installation and maintenance of gas appliances by private sector firms and engineers is and might; not in the future be reliable.

There are already 9,000 Corgi approved member firms in the private sector.

The BGC themselves sometimes  
sub-contract, particularly in the  
case of central heating installation.

In the case of an emergency  
such as a gas leak, the consumer  
does not go down to the local  
gas showroom in the middle of  
the night but picks up the telephone  
and rings the Gas Board's emergency  
number.



Moreover although under the Gas  
Safety Regulations installation by non-  
competent fitters is illegal there is  
no effective sanction against this at  
present.

During the period of conversion to North Sea Gas BGC sub-contracted very widely indeed without finding it necessary to express their public concern about safety standards of non-BGC engineers although of course the potential dangers of conversion to North Sea Gas were far greater than the installation of the average gas appliance.

I do not say that safety is unimportant.

On the contrary, it is very important; and the Government fully recognises that if the introduction of greater competition into the gas appliance market were to bring with it the need for new rules and standards on safety it would be imperative to introduce such rules and standards to safeguard consumers.

Even without the present publicity  
campaign - which, as I have told  
the House, I regret and deplore -  
safety would, rightly, be a matter  
of central public concern.

Anyone could be forgiven for

gathering from the Rt Hon Gentleman's

remarks and certain BGC advertisements

that the BGC's own services were

beyond criticism.

In fact the NGCC receives over  
15,000 complaints a year about the  
BGC's sales and service and there  
are possibly as many more complaints  
on the same subject to the CAB,  
so their own standards are hardly  
beyond criticism.

53

I am informed that the gas appliance installation technology is fairly low technology and those selling gas appliances in the private sector have already discovered two obvious facts - most gas appliances today have some electrical components and it has proved relatively easy to train electrical engineers perfectly adequately in the comparatively low technological additional skills needed for gas appliance installation.

In most cases one engineer is usually employed in the installation in the private sector and that this often occurs in the case of the BGC, as well.



On the whole most gas appliances  
suffer few faults and appear to  
need much less servicing than  
electrical appliances once installed,  
if the installation is correctly  
carried out and if the appliances  
are not defective in the first  
place.

Here I must remind the House  
that what we are discussing is  
not the fundamental installation of  
the gas supply itself but mainly  
the fitting of appliances to the  
existing supply.

I turn now to another of the fears expressed, the question of availability and continuity of the supply of gas appliances if any changes whatsoever were to be made in the present structure.

But I think that it is clear that under the present system, which itself is far from satisfactory, in certain areas choice in the range of appliances available is far too limited and very limited indeed when compared with similar electrical appliances.

More emphasis on the private sector  
avenue for retailing these appliances  
would inevitably, as a result of  
response to demand lead to wider  
choice and greater availability which  
consumers want.

In any change, no matter which  
option is finally decided upon,  
there would it is true be a  
transition period and this is  
what appliance manufacturers fear,  
those fears must be taken full  
account of in any decision taken.

However the fundamental fact remains

that if consumers want to buy

gas appliances then retailers will

sell them.

The response from my consultations  
with a wide sector of the retailing  
industry on this point has been  
favourable, particularly from Department  
stores and discount retailers.



The reality is that market demand  
would dictate, as it should, what  
retailers sell.

64

There is a very considerable  
hard core consumer loyalty to  
gas cooking, for example many  
women only like to cook on gas  
despite the comparatively limited  
range of gas cookers, is anyone  
suggesting that retailers would not  
respond to that demand?

65

Under the present regime they  
are prevented from doing so as  
fully as many would like.

66

Indeed if the status quo were to  
be allowed to continue without any  
change at all, those retailers would  
be turning increasingly to imports,  
frustrated as they are today by  
some British manufacturers because  
of their relationship with BGC.

67

I have already dealt with points  
made about consumer access to  
advice, the payment of bills and  
etc. so I turn now to the  
consequences for employment of  
any of the alternative options  
being considered, inevitably some

consequences would follow the adoption  
of any of the options that I  
have outlined either those put  
forward by the MMC or any of  
the alternatives that the Govt are  
also considering and I fully appreciate  
the concern expressed on this  
score.

69

But the BGC would retain under  
any of those options, its fundamental  
role in relation to the installation  
of the primary gas supply.

In the case of certain of the  
options Showroom sales staff and  
appliance installation engineers would  
be the main <sup>temporary</sup> casualties but a good  
many of them could be absorbed  
in an expanding private retail  
gas appliance sector which would  
welcome their experience.



Clerical and administrative staff

dealing with billing and enquiries

would not be affected.

72

And here I would like to pay  
tribute to the staff in the gas  
showrooms up and down the country  
giving excellent service.

Much of their work in providing  
consumer advice and bill paying facilities  
is essential, whatever the future shape  
of the gas appliance retail market.

I know the House will join with  
me in recognising this work.

At the end of the day the

Government have to take a difficult

decison.

Its objective and first responsibility  
must be to respond to and remedy  
the very adverse findings in the MMC  
report in a way which is consistent  
with the need to give consumers wider  
choice, better service, safety, availability  
and convenience and at the same time  
to minimise as far as it is possible  
any adverse affects of any changes on  
our own manufacturing industry and the  
employees of BGC.

The Government is ready to honour  
its responsibilities and obligations.

It would be nice - but no  
doubt unrealistic - to think that  
the Opposition would join with the  
Government in a constructive and  
responsible approach and support  
the Government's amendment and the  
British consumer tonight.

End.

76 .

116 JUN 1981



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10 DOWNING STREET

*From the Private Secretary*

15 June 1981

Supply Day Debate on the Monopolies and Mergers  
Report on Gas Appliances

The Prime Minister has read your letter of 12 June, and also the Secretary of State for Energy's minute of 12 June commenting thereon.

As I told you on the telephone, the Prime Minister does not think that your Minister can go as far as she has proposed in Wednesday's debate, because the Government's policy has not yet been agreed. She takes the view that Mrs. Oppenheim could say that the Government accepts the findings of the MMC report, but has not yet decided how to deal with them.

The Prime Minister has asked if your Department and the Department of Energy would sort this out and reach agreement on what Mrs. Oppenheim should say.

I am sending a copy of this letter to Julian West (Department of Energy), Ian Ellison (Department of Industry), Richard Dykes (Department of Employment), David Willetts (HM Treasury), David Wright (Cabinet Office) and also to David Heyhoe (Chancellor of the Duchy's office).

L.P. LANKESTER

Peter McCarthy Esq  
Department of Trade

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From the  
Minister of State  
for Consumer Affairs  
The Rt Hon Sally Oppenheim MP

Prime Minister

The policy issue is discussed in  
the minutes at Flag A. For  
reasons set out in Flag B, Dept  
of Energy are strongly opposed  
to Mrs Oppenheim speaking on the  
lines of x 12 June 1981  
below. Shall I tell the two Depts  
to sort this out between themselves  
(i.e. her statement) on Monday?

William Ricketts Esq  
Private Secretary  
Prime Minister's Office  
10 Downing Street  
London SW1

Dear William,

SUPPLY DAY DEBATE ON THE MONOPOLIES & MERGERS REPORT ON GAS APPLIANCES:  
17 JUNE

As you will know, it has been agreed that my Minister will open for the Government in this debate. D. v. p.

In speaking, Mrs Oppenheim will of course be guided by the discussion in E(DL) on 10 June, on which the Secretary of State for Industry is (I understand) minuting the Prime Minister. In setting a keynote for her statement, however, she wishes to make clear that the Government sees no alternative to disposal of the British Gas Corporation's present retail network, whatever form disposal might take, whether total, partial or via privatisation, and whatever period were decided upon for it. She would then refer to the recommendations in the MMC's report and variants on them such as those discussed in E(DL).

Mrs Oppenheim feels that it would be right to make a statement on these lines, the more so since disposal was a common theme of the three papers discussed at E(DL) on 10 June, at which no counter proposal for any other form of action was mooted.

I am therefore writing to seek agreement to a statement being made on these lines.

I am copying this letter to the Private Secretaries of the Secretaries of State for Energy, Industry and Employment and of the Financial Secretary and to Sir Robert Armstrong.

Mrs Oppenheim cannot go as far as she wishes because the policy has not been agreed. We can accept the MMC but it is not yet possible to say how we shall proceed.

Yours sincerely,  
Peter McCarthy

PETER MCCARTHY  
Private Secretary

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B

PRIME MINISTER

BGC - Retailing of Gas Appliances

*Am sm  
T*

I entirely agree that we must tackle the problems of unfair competition identified by the MMC and I support the privatisation of BGC's appliance retailing activities. As Keith Joseph has reported to you in his minute of 12 June, I have very considerable reservations about the route advocated by Sally Oppenheim and supported by the majority of ED(L). I believe that if we go down that route, there could well be a very sharp public reaction. We will also run a risk of industrial action - both the unions involved have indicated that they will take such action if we force BGC to withdraw from appliance retailing.

As Keith mentions, there could also be, if we went down that route, legislative problems associated with safety and my powers of direction over BGC. While I may be able to give BGC a direction to cease retailing, it is by no means certain that I could direct them to dispose of their showrooms. Showrooms are not used solely for appliance retailing but also for the collection of bills and customer services. Some 60% of BGC's customers pay their bills at the showroom - some £800 million annually.





- 2 -

I believe that we can achieve our objectives without running the risks I have mentioned. I very much hope therefore that we can discuss this further before reaching final decisions on how to proceed.

In the meantime we have to decide what line we should take in the debate next Wednesday. I am concerned that, if she takes the line she suggests in her letter of 12 June, this will have the adverse consequences which I am anxious to avoid and lead to primary legislation. It could also prejudice the consultative process that I am required by statute to have with BGC before issuing them with a direction. This could call into question the validity of any subsequent directions.

I suggest that the line Sally should take on Wednesday is to say that we accept the MMC finding that BGC's dominance has not been in the national interest and that we intend to ensure that proper competition is restored to the market. We should not indicate precisely how before we examine how this can best be done.

I am sending a copy of this minute to Keith Joseph, Jim Prior, Francis Pym, Sally Oppenheim and Sir Robert Armstrong.

// Secretary of State for Energy  
12 June 1981

(approved by the Secretary of State and signed in his absence)



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PRIME MINISTER

BRITISH GAS CORPORATION: RETAILING OF GAS APPLIANCES

E(DL) discussed on 10 June, without reaching agreement, how the British Gas Corporation's (BGC) domination of gas appliance retailing should be ended. I undertook to report the outcome of the discussion to you.

2 BGC accounts for over 90 per cent of retail sales of gas cookers, fires and water heaters. In a report published in July 1980, the Monopolies and Mergers Commission (MMC) concluded that BGC's domination of the market acts against the public interest. The Commission alleged that BGC is able to demand advantageous terms from suppliers, and to subsidise the sale of appliances from gas sales, thus inhibiting competition in the retail trade; and that the manufacturers' close relationship with BGC has reduced the competitive pressure on them to increase efficiency. Colleagues accept the Commission's analysis.

3 E(DL) discussed three proposals for opening up the selling of gas appliances to private sector competition.

- (i) The Minister of State, Department of Trade proposes that BGC should be required to withdraw from gas retailing over five years. (E(DL)(81)8). The Corporation should dispose of half of its showrooms within two years, a quarter in the following year, and the remaining quarter in the final two years.
- (ii) The Secretary of State for Energy proposes that BGC should hive off the retail sale of gas appliances into a separate subsidiary. The Corporation itself

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*a Mr Lygham*

*Mr Hooshyans*

*A*

*Prime Minister*

*2*

*I think you have already said that we cannot resolve this issue in time for the debate next Wednesday. It is now on the agenda for the following week.*

*R*

*14/6*



would continue to buy gas appliances wholesale, but would sell them to reputable private retailers and its own subsidiary on the same terms. The retailing subsidiary could be sold to the private sector as and when it developed into a viable business. (E(DL)(81)11).

- (iii) The Parliamentary Secretary, Department of Industry, proposes a modification of the Minister of State, Trade's scheme. BGC should dispose of 75 per cent of its showrooms over 5 years with the other 25 per cent held by a new BGC subsidiary. The Corporation would be required to ensure fair competition between the private sector and its subsidiary and to sell off the latter as soon as possible. (E(DL)(81)10).

4 The Sub Committee considered the three proposals against a number of criteria.

(a) Competition and Privatisation. Proposals (i) and (iii) would clearly contribute to our objectives of promoting competition and, wherever possible, transferring functions from the public to the private sector. It is questionable whether the Secretary of State for Energy's proposal (ii) would have the same results. The BGC's dealings with its retailing subsidiary would need to be supervised to ensure that the Corporation did not discriminate against private sector retailers (and the Office of Fair Trading would require additional manpower to provide this supervision). There is a risk that private sector competitors would simply not be convinced that they could compete on fair terms with a BGC subsidiary and might not attempt to enter the market.



(b) Effect on manufacturing. Almost all United Kingdom gas appliances manufacturers are opposed to BGC's being forced to withdraw from retailing. They fear that private sector retailers would be slow to fill the gap; which would seem to point towards proposal (ii) or possibly (iii). The manufacturers are, however, probably, excessively influenced by their present cosy relationship with BGC. Past evidence suggests that retailing is one of the more dynamic sectors of the United Kingdom economy, and a number of potential retailers of gas appliances have already expressed considerable interest in getting into the market provided that BGC is excluded from it. So far as the manufacturers are concerned, they ought to be able to respond to the changing demands which would probably occur if the market were opened up to competition. Nonetheless there would almost certainly be some increase in import penetration, though this could perhaps be reduced by specifying appropriate technical standards.

(c) Consumer attitudes. The National Gas Consumers Council, the Consumers Association and the National Consumer Council are all opposed to BGC's being obliged to stop selling gas appliances. Like the manufacturers they fear that private sector retailers would not quickly fill the gap left by BGC. On the other hand there is enormous consumer dissatisfaction with the standards of BGC's own installation of gas appliances.

(d) Safety. Gas appliances installed by the private sector have a markedly worse safety record than those installed by BGC, although in absolute terms the number of incidents is small and the Corporation relied predominantly on private sector contractors when natural gas replaced town gas a few years ago. Whichever option is adopted, however, it seems desirable to strengthen the arrangements for ensuring that private suppliers observe appropriate safety standards. The Minister of State, Department of Trade, thinks that this could, if

Energy says  
There is no  
evidence  
for this  
IL.



necessary, be done under existing powers.

(e) Proceeds from disposal. We do not at the moment have agreed estimates of the sort of proceeds which would accrue from disposing of BGC's showrooms: figures mentioned range between £10 million and £100 million. The Secretary of State for Energy, the Minister of State, Department of Trade and the Financial Secretary, Treasury, are attempting to agree on a narrower range of figures. Irrespective of the disposal proceeds there is, however, a case for going ahead in order to promote more open competition.

(f) Attitude of BGC and the Unions. The Corporation and the Gas unions are strongly opposed to the Corporation's being obliged to get out of gas appliance retailing and there is talk of action going as far as a national gas strike. The unions expect, probably rightly, that there will be some net reduction in jobs if BGC stops selling gas appliances. Private sector retailers would, for example, be unlikely to follow the Corporation's practice of sending separate electricians and gas fitters to install any gas appliance with electrical parts; they would probably use one man where BGC use two.

Energy says  
this is untrue.  
BGC use only  
one fitter.

TL

5 E(DL) recognise the amount of opposition to proposals for radical change in gas retailing which a concerted campaign by BGC and the gas unions could produce; the serious consequences which a gas strike would have; and the risk that private sector retailers might be less effective in replacing BGC than one might hope. Most members of the Sub Committee, however, would expect manufacturers, and much more so retailers, to adapt satisfactorily to the radical change in the market which would occur if BGC stopped retailing; regard it as quite inappropriate that a public corporation should continue to be heavily involved



in the retail distribution of gas appliances; and are in favour of proposal (i).

6 The Secretary of State for Energy's view, as reported by the Parliamentary Secretary, Department of Energy, remains that the risks of disruption in gas appliances retailing and manufacturing preclude proposal (i) and that his own approach (ii) is to be preferred.

7 The compromise suggested by the Parliamentary Secretary, Department of Industry (iii), found little support at yesterday's meeting, on the grounds that it would be difficult to defend reserving any proportion of the market to the Corporation. Colleagues felt that a better safeguard against the risk of undue market disruption would be to announce that whatever timetable is fixed for BGC to get out of gas retailing would be flexible and open to review.

8 There is a difficulty about powers. If the Government wants BGC to withdraw from the retailing of gas appliances, the Secretary of State for Energy will have to direct it to do so. The Attorney General's advice is that there is a reasonable chance that powers under the Gas Act 1972 could be used for this purpose; the Secretary of State for Energy is attempting further to clarify the legal position, but it is unlikely that we shall be able to reach a firm view on the adequacy of existing powers without knowledge of what arguments BGC might themselves deploy against a direction to get out of appliance retailing: the Gas Act requires the Secretary of State to take the Corporation's views into account when framing a direction. It would be as well therefore to proceed on the pessimistic assumption that new powers would need to be taken. It might be possible to include them in the Gas (Industrial and Commercial Supplies) Bill, which is likely to be introduced in the next session of Parliament. The Chancellor of the Duchy of Lancaster has, however, expressed serious doubt about the wisdom of adding to that already

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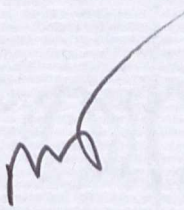


contentious Bill. It would seem necessary for any decision to proceed along the lines suggested by the Minister of State, Department of Trade, to be dependent on the further advice we have commissioned on the possible legal and legislative difficulties about the course.

9 I am copying this minute to Members of E and E(DL), to the Chancellor of the Duchy of Lancaster, the Secretaries of State for Scotland and for Wales, the Attorney General, the Chief Whip, the Minister of State, Department of Trade, the Parliamentary Secretary, Department of Industry; and to Sir Robert Armstrong.

*Catherine Bell*  
pp KEITH JOSEPH  
(approved by the Secretary of State  
and signed in his absence)

12 June 1981

  
Department of Industry  
Ashdown House  
123 Victoria Street

CONFIDENTIAL



SECRETARY OF STATE FOR ENERGY  
 THAMES HOUSE SOUTH  
 MILLBANK LONDON SW1P 4QJ  
 TELEPHONE: 01-211 3000  
 211 6402

*Mr Lyngheuser was told*

*Not ind*

*This was mentioned  
 at Min 52*

*today.*

The Rt Hon Sir Keith Joseph BT MP  
 Secretary of State for Industry  
 Ashdown House  
 Victoria Street  
 London  
 SW1

10 June 1981

*R*

*1076*

*See Vent*

As you know Mr Schueppert, Chairman of Sheerness Steel, wrote to me on 21 May about his current negotiations with the South Eastern Electricity Board (SEEB) on electricity prices for 1981/82 and their importance to his company's future prospects. I also discussed this with Roger Moate on 20 May, and I understand Sheerness Steel had previously discussed its current difficulties with Norman Tebbit.

The SEEB has been left in no doubt of my concern that it should make available to Sheerness Steel the maximum price flexibility possible under its present pricing arrangements. I understand the Board has now made the company an offer which it considers is on a par with offers being made by other Area Boards. Sheerness Steel is considering with the Board's officials the practical implications of the offer. But I am advised that despite some recent improvement in the company's order book the risk of closure remains serious.

The continuing possibility of such a closure - which in view of Sherness Steel's position as a prominent private sector steel company, would be politically highly sensitive - illustrates the urgent need for us to take decisions on the proposals before MISC56 for further help for large electricity users.

I am copying this for information to the Prime Minister and to the Chancellor of the Exchequer.

D A R HOWELL

*See*

*David*





CONFIDENTIAL

*Prime Minister*

*There is a Treasury paper  
in his folder which you  
have not seen - came in  
after the report.*

P.0496

PRIME MINISTER

*Th.*

STIMULATION OF INDUSTRIAL INVESTMENT IN ENERGY CONSERVATION

MISC 56(81) 8 and 15

BACKGROUND

The Secretary of State for Energy has been trying for some time to persuade colleagues to support fresh efforts to stimulate energy conservation, particularly by industry, and more recently to encourage a switch from oil to coal burning. Agreement was reached earlier this year on a 2-year, £50 million grant scheme towards the costs incurred in converting boilers from oil to coal firing, and this was announced in the Budget Speech.

2. The proposals in his memorandum MISC 56(81)8, which elaborates on earlier recommendations considered by the Group at their last meeting, are for a deferred interest loan scheme to encourage companies to invest more in energy saving projects and fuel substitution schemes vital to the long-term competitiveness of United Kingdom industry. The Secretary of State estimates that a scheme open for application for three years could generate about £1 billion of new investment in conservation projects. He sees it as part of a package of measures necessary to respond to criticisms of industrial energy prices and to reduce pressure for a sequence of costly concessions at the expense of economic pricing and of the Public Sector Borrowing Requirement.

3. Under the proposed scheme, loans would be made by Finance for Industry (FFI) and by the clearing banks on commercial criteria for projects meeting energy guidelines set by the Government. The interest due in the first three years of each loan would be deferred; to give an incentive to firms to take up loans, they would not pay interest on this deferred interest. The Government would pay the banks amounts equivalent to the interest deferred and recoup the money later when the firms started to make payments to the banks. These outgoings account for the £300 million estimated public expenditure costs from 1981-82 to 1985-86. The subsidy resulting from not charging interest on



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the deferred interest would be about £240 million over 19 years, of which £15 million would fall in the first five years. It is explained in paragraph 7 of MISC 56(81)8 that the Bank of England has suggested that the clearers would probably expect some element of guarantee to be available in some cases if they were to operate the scheme.

4. The number of additional Civil Servants would be small only if FFI and the clearers agreed to do most of the work themselves and any guarantees were limited.

5. Legislation to provide for the payments would be needed as soon as possible; although in the meantime it would be possible to proceed on the authority of the Appropriation Act.

6. In MISC 56(81) 13 the Chancellor of the Exchequer sets out four reasons why he thinks the Group should reject the proposals:-

(i) The public expenditure costs of £300 million in the first five years for which the Department of Energy are offering no offsetting savings (plus a contingent liability of perhaps £80 million if some guarantees were given).

(ii) The monetary consequences - if the monetary targets are to be achieved, increased bank lending for this purpose is at the expense of lending elsewhere.

(iii) Industrial policy - on the grounds that if energy conservation investment is attractive firms should do it anyway without intervention by Government.

(iv) Staff numbers - these could turn out to be high.

#### HANDLING

7. After the Secretary of State for Energy has introduced his paper you might invite the Chancellor of the Exchequer to comment and the Secretary of State for Industry to give his views on the industrial case, or otherwise, for this assistance.



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8. In examining the proposal you will wish to consider each of the four points made by the Chancellor of the Exchequer and also the problem of legislation.

CONCLUSIONS

9. In the light of the discussion the Group will wish:-

Either to reject the proposals, as recommended by the Chancellor of the Exchequer,

Or to invite the Secretary of State for Energy to arrange for further confidential discussion between his Department, the Treasury, FFI and the banks on the details of the scheme and to report back. If this is the conclusion you will wish to emphasise that final approval of any scheme must be reserved to the Cabinet in view of the substantial additional public expenditure involved.

P Le CHEMINANT

Cabinet Office

9 June 1981

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P.0495

PRIME MINISTER

INDUSTRIAL ELECTRICITY PRICES

MISC 56(81)6,9,11 & 12

BACKGROUND

This group was set up, following the meeting on 8 April of the Ministerial Committee on Economic Strategy (E(81)14th Meeting, Item 1), to consider the amount of an abatement of the increase of 20p on the duty on derv and the scope for further reductions in electricity tariffs for large industrial users and for reductions in the price of foundry coke. The first meeting was on 16 April, under the chairmanship of the Chancellor of the Exchequer while you were in India, and led to the announcement of the abatement on derv. The Chancellor also chaired the second meeting on 14 May when the papers now before the group were commissioned. As you agreed when the group was set up, each Minister may bring an official to the meetings.


*The Chancellor will be bringing two: P. Middleton and his from the Treasury's energy division.*

2. On 8 April, E Committee ruled out the possibility of giving help to electricity users on a basis of the Government selecting particular beneficiaries; instead they wanted changes in tariff structure which would have the effect of benefiting large industrial users. MISC 56 has therefore been looking for a solution whereby criteria related to electricity usage (maximum demand and load factor) would help companies in those sectors which are most vulnerable to overseas competitors who benefit from lower electricity prices (ie, chemicals, paper and board, textiles and iron and steel) and, so far as possible, avoid helping those companies not facing such competition and/or not in need of financial assistance.

3. MISC 56(81)6 represents the third attempt to find an approach which satisfies these criteria - not perfectly but as near as is practicable. Three possibilities are summarised in paragraph 10 - each would involve giving a 10 per cent discount to qualifying consumers for one year.

4. Officials recommend that the best solution would be to offer the discount to all consumers with a maximum demand of over 5 megawatts (MW) and a

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50 per cent load factor, but with a 30 per cent load factor for iron and steel alone. This would cost £110 million. The preferential treatment for iron and steel would be criticised by other sectors but is necessary if steel producers (mainly private sector) using the electric arc process are to be helped and the possibility of applying the 30 per cent load factor generally is ruled out on the grounds that the scheme would then cost £140 million. This preferred option is the second scheme described in more detail in paragraph 9 of the paper.

5. The alternative of a sliding scale approach - paragraph 10(i) and, in more detail, paragraphs 7 and 8 - has some advantages in focusing on companies in need but it is complicated and fails to cover smaller iron and steel producers. It would cost £105 million.

6. In looking at these, and any other alternatives, the group should bear in mind that all the possibilities suffer from the following major disadvantages:-

(a) Without actually picking out particular beneficiaries (which E Committee rejected) the Government risks spending more money and still being criticised for offering too little, too late and to the wrong beneficiaries.

(b) At about £110 million for a year the cost is high, and in practice it could be very difficult to switch off assistance after one year when, as the Secretary of State for Energy points out in his paper on the longer term (MISC 56(81)9), the present price disparities with France and Germany may well continue for some considerable time.

(c) Legislation may be necessary, although this is still uncertain - if assistance were confined to one year the Department of Energy would hope to pay compensation to the electricity industry under the powers of the Appropriation Act and to avoid legislation to remove the industry's statutory obligation to avoid undue preference in pricing on the (questionable) grounds that it would be a Government rather than electricity industry scheme.

(d) There would be difficulties with the European Commission. There is a Treaty requirement for the Commission to be informed "in sufficient



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time to enable it to submit its comments, on any plans to grant or alter aid"; and the introduction of any such proposals would be in conflict with the high-principled line taken by the United Kingdom so far on the need for economic energy pricing in all member states.

7. The Group will also want to look at the proposals in the context of the broader and longer-term issues discussed in the memoranda by the Secretary of State for Energy (MISC 56(81)9), the Central Policy Review Staff (MISC (81)11) and the Department of Industry's assessment of the effects on particular industrial sectors of electricity prices (MISC 56(81)12). The Group commissioned these papers on the grounds that the expense and difficulties of a short-term scheme needed to be justified in the context of an assessment of whether the sectors which were likely to benefit were of sufficient importance to justify this help and of whether in the longer term there was a realistic prospect of electricity prices coming down and so removing the need for bridging help.
8. The Department of Industry (MISC 56(81)12) discuss the four main sectors affected and give their assessment in paragraphs 23-26 and their conclusions in paragraph 27. Their judgement seems broadly to be that, if world demand were more buoyant and prices firmer, companies within these sectors would probably cope with their electricity cost disadvantage. The present recession, puts them under particular pressure and some temporary relief could be useful in helping the better firms through the recession and in avoiding closures.
9. The Secretary of State for Energy concludes (MISC 56(81)9) that disparities with French and German electricity prices are likely to persist into the 1990s since it is unrealistic to look for early benefits from cost reductions by the National Coal Board, and the expected benefits from the nuclear programme turn on making substantial improvements in construction times and performance and, even then, will not be felt until well into the 1990s.
10. The CPRS, in MISC 56(81)11, argue that subsidies now to keep energy-intensive industries in business must be accompanied by urgent action to tackle the coal and the nuclear problems - in particular dealing with the problems of the National Nuclear Corporation (their paragraph 4).



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HANDLING

11. It would be helpful if the Secretary of State for Energy, in introducing his papers, could bring the group up to date with the pressures from the NEDC and from the CBI for the Government to take further action. The Department of Industry's paper was circulated while the Secretary of State for Industry was still in America, and he will wish to give his views on the industrial case for some action, and perhaps to comment on whether the recent changes in the dollar/sterling exchange rate affect the arguments. Mr Ibbs will wish to speak to the CPRS paper and the Chancellor of the Exchequer to comment, in particular, on the expenditure and PSBR implications. You will then wish to hear the views of the Secretary of State for Scotland and the Chancellor of the Duchy of Lancaster.

12. The Group will wish to avoid getting too much into technical details. The main question is whether the game is worth the candle. There are still considerable pressures on the Government to take further action to help these industries, and failure to do so could well lead to closures and substantial job losses. On the other hand there would be substantial additional public expenditure, which will be difficult to confine to one year; the possibility of legislation, and the near certainty of it if the scheme goes beyond one year; possible difficulties with the European Commission; and the certainty that, while some industries and critics will be pleased, others will feel hard done by and will continue to press their own case.

13. I very much doubt whether it is worth calling for further work from Departments. The broad options for the Group seem to be:-

Either

(a) To invite the Secretary of State for Energy to have confidential discussions with the electricity supply industry on one or more of the options discussed in MISC 56(81)6 and to report further. If it were then decided that the scheme should go ahead, it would be necessary for it to be approved by the Cabinet in view of the substantial claim which it would involve on the Contingency Reserve and of the possibility of continuing substantial expenditure in the later years.

When you decided to set up this group on 8 April, the \$/£ rate was 2.21 and the effective 99.4 TL.



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Or

(b) The idea could be dropped entirely, in which case further consideration would have to be given to public presentation of this decision - the ease of this would turn in part on the decisions which the Group has to take on the proposals to stimulate energy conservation and to help with subsidies of foundry coke.

CONCLUSIONS

14. In summing up the discussion you will wish to record conclusions on which of the two broad options summarised in paragraph 13 above the Group favours.

P Le CHEMINANT

Cabinet Office

9 June 1981



  
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P.0493

PRIME MINISTER

FOUNDRY COKE PRICES

MISC 56(81)7

BACKGROUND

United Kingdom foundry coke prices are about 30 per cent higher than in Europe. Coke amounts to 6 per cent on average of foundry costs. The foundry industry are campaigning for the reduction of UK prices to European levels.

2. In MISC 56(81)7 the Secretary of State for Energy proposes that National Smokeless Fuels Limited (NSF) - a wholly-owned subsidiary of the National Coal Board (NCB) - should be asked to cut their list prices for coke by £10 a tonne as soon as possible. To enable them to do so the NCB would be given grants of £7 million which they would somehow (the mechanics are not clear) make available to NSF. NCB's External Financing Limit (EFL) would be increased by £7 on top of the £1100 million for 1981-82 which has now been approved but not announced. As explained in paragraph 8 and 9 of the paper, this procedure is designed to avoid the need for legislation, which would be necessary if the Secretary of State were to pay the grants direct, and to avoid the difficulties with the European Coal and Steel Community (ECSC) which would result from reductions in the price of coal charged by the NCB to NSF.

3. There is also a problem with the private sector company - British Benzol Carbonising Limited - the only other United Kingdom producer of foundry coke, which is already in difficulties. The NCB are willing to give discounts to British Benzol to neutralise the benefits proposed for NSF and to consider the possibility of further help for the company.

4. The industrial case for helping the foundry industry is briefly set out in paragraphs 2-4 of the paper (though there is no explanation of why our foundry coke prices are so high).



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HANDLING

5. This is a relatively small issue and the Group are unlikely to spend much time on it. After the Secretary of State for Energy has introduced his paper you will wish to invite the Secretary of State for Industry to advise on the industrial case for supporting the foundry industry and the Chancellor of the Exchequer to comment on the implications for the EFL.

6. In discussion you will wish to establish in particular whether:-

(a) There is a sound industrial case for a special subsidy of this particular sector, ie will £10 a tonne off the coke price make a real difference to the fortunes of the foundry industry.

(b) If so, whether the help is best given by way of an energy subsidy (it is difficult to be sure without an explanation of why our coke prices are high).

(c) The proposals are free from both legislative and ECSC difficulties. In considering the latter it must be remembered that the scheme would undoubtedly become public knowledge - indeed the Government would wish to take credit for it.

(d) Enough has been done to safeguard the interests of the private sector company, British Benzol Carbonising - it would be politically very difficult if they could claim that the NCB, with Government help, forced them out of business.

(e) The NCB could be persuaded to cope with the £7 million within the very round EFL total of £1100 million (itself an increase from £886 million) so avoiding the need to announce the oddly precise new figure of £1107 million.

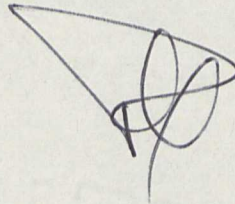
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CONCLUSIONS

7. In the light of the discussion you will wish to record conclusions

either ruling out the proposed scheme


or approving it, subject to a ruling on whether the National Coal Board's EFL of £1100 million is to be amended to £1107 million.



P Le CHEMINANT

Cabinet Office

9 June 1981

  
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Qa 05384

To: MR LANKESTER

From: J R IBBS

9 June 1981

Industrial Electricity Prices

1. The note by the CPRS (MISC 56(81)11) which has already been circulated as a collective brief poses for Ministers a choice between risking the gradual loss of certain industrial sectors which are intensive users of electricity or alternatively providing them with price discounts during a transitional phase until electricity costs are brought to a level more competitive with those of our European partners. This improvement in costs would depend mainly on achieving low cost coal production and a better nuclear programme than hitherto. The paper takes a neutral stance on the feasibility of obtaining these improvements.

2. I feel I should make it plain that personally I believe that the consequences of not eventually catching up and having low cost electricity are potentially serious. I would be extremely reluctant to accept that such improvement is beyond us as the Department of Energy's paper (MISC56(81)9) seems to imply.

3. I am greatly disturbed by the conclusion (paragraph 27) of the Department of Industry's paper (MISC56(81)12) that "we tend as a country not to perform well in capital intensive sectors" and that electricity intensive industries therefore "seem unlikely to be outstandingly successful". My own experience is that we are quite able in well managed companies to be world competitive in suitably chosen capital intensive activities and that it is quite wrong to assume that we need be bad at them. The general technological trend in developing countries is towards greater capital intensity (and greater dependence on electricity), and if we are defeatist and fail to strive to be successful in this broad area (and fail to provide ourselves with low cost electricity as an



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important aid to this) we shall very seriously reduce our long term economic prospects.

4. I am sending a copy of this minute to Sir Robert Armstrong.

*SR*

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Covering CONFIDENTIAL

Qa 05380

To: MR LANKESTER

From: J R IBBS

Industrial Electricity Prices

Although we have seen a draft of the Secretary of State for Industry's paper for the meeting of MISC 56 on Wednesday next, we have yet to see the final paper. I am, therefore, delaying formal circulation of the CPRS collective brief, but nonetheless thought the Prime Minister should have an advance copy for her weekend box.

---

JKJ

5 June 1981

Att.

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THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

MISC 56(81) 11

COPY NO

5 June 1981

CABINET

MINISTERIAL GROUP ON ENERGY PRICES

INDUSTRIAL ELECTRICITY PRICES

Note by the Central Policy Review Staff

1. The note by officials (MISC 56(81)6) outlines three possible schemes to aid electricity users; each a development of the basic model recommended in MISC 56(81)4 following Ministerial discussion at MISC 56(81) 2nd meeting. Each of the schemes is broadly equivalent to pricing electricity down to short-run marginal costs for the largest consumers; they differ only in the extent of their coverage. All schemes have inherent difficulties; there will be criticism from those who do not benefit, and equally criticism from those who do qualify but for whom the benefits have only a small impact on the overall price disadvantage they face. In addition there are possible legal complications. There is clearly no perfect solution and the CPRS would agree with officials that option (iii) in paragraph 10 of MISC(81)6 offers the best fit available.

2. However, in the view of the CPRS the long-run economic implications of electricity price levels are more far reaching than the immediate difficulty of constructing a scheme and the practicalities of its implementation. The fundamental issue at stake is whether there is a case for keeping in the UK some or all of the energy intensive sectors based on electricity identified on the Secretary of State for Industry's note (MISC 56(81)12).

3. If Ministers do believe that such industries should be retained, then clearly a temporary scheme would not encourage investment and keep such industries in the UK; indeed it is possible that some larger discounts than those at present envisaged might also be necessary. On the other hand, more long-lasting and any larger discounts could be justified economically only

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during a transitional phase until electricity costs are brought down to a level more competitive with those of European partners. The Secretary of State for Energy's paper (MISC 56(81)9) on electricity prices in the longer-term is clearly not sanguine about the prospects for lower costs. It points to the problems of relative cost and building time for nuclear stations, and to the problems with the NCB.

4. In the view of the CPRS, if Ministers wish to reduce electricity prices in order to retain energy intensive industries they must simultaneously take action now about the long-term electricity cost. Initially this would entail

(i) on coal, evolving and successfully implementing a medium term strategy which will enable production to be concentrated at low cost pits

(ii) on nuclear, ensuring that the PWR design is completed speedily and is one that corresponds to minimum cost commensurate with safety; the design must be one capable of replication and series ordering and be in line with best practice in other countries if our power industry is to have export opportunities and if efficiency is to be stimulated by external competition. As a first step it will be necessary to resolve the current problems within the National Nuclear Corporation such as appointing a new Chairman, reconciling the representation of its shareholders and finding a financial structure which will allow it to take on the position of prime contractor.

The history of the last two decades does not inspire confidence in the nuclear industry's ability either to produce a cost competitive design or to build to time. If Ministers believe these problems are largely intractable and that the UK must become reconciled to competitive disadvantage on electricity costs as the Secretary of State for Energy's paper seems to imply, then the question of a discount scheme becomes fundamentally a matter of political judgement. However, it is important to emphasise that if we cannot achieve competitive-cost electricity, the result will be a UK industrial structure different from that of our major European competitors, and will further increase the need for new activities to emerge within the remaining more restricted field.

Cabinet Office

5 June 1981

**CONFIDENTIAL**



PART 4 ends:-

s/s Energy to PM of 28/5/87.

PART 5 begins:-

E (DL) (81) 8 of 1/6/81.