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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

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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.