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(S1) 21st Meeting

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at 10 Downing Street on TUESDAY 23 JUNE 1981 at 10.30 am

PRESENT

The Rt Hon Margaret Thatcher MP Prime Minister

The Rt Hon William Whitelaw MP Secretary of State for the Home Department

The Rt Hon Sir Geoffrey Howe QC MP Chancellor of the Exchequer

The Rt Hon Sir Keith Joseph MP Secretary of State for Industry

The Rt Hon Lord Soames Lord President of the Council

The Rt Hon James Prior MP Secretary of State for Employment

The Rt Hon Michael Heseltine MP Secretary of State for the Environment

The Rt Hon David Howell MP Secretary of State for Energy

The Rt Hon Leon Brittan QC MP Chief Secretary Treasury

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Francis Pym MP Chancellor of the Duchy of Lancaster and Paymaster General (Item 1)

The Rt Hon Nicholas Edwards MP Secretary of State for Wales (Item 1)

The Rt Hon Sir Michael Havers QC MP Attorney General (Item 1)

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

Mr Alexander Fletcher MP Parliamentary Under-Secretary of State, Scottish Office

Mr J R Ibbs Central Policy Review Staff

SECRETARIAT

Sir Robert Armstrong Mr P Le Cheminant Mr D J L Moore

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1. BRITISH GAS CORPORATION: RETAILING OF GAS APPLIANCES

The Committee considered a Memorandum by the Secretary of State for Energy (E(81) 69) on the future of the British Gas Corporation's (BGC) appliance retailing business and a Note by the Secretaries (E(81) 68) covering a report by the Secretary of State for Industry on the discussion of this subject by the Sub-Committee on Disposal of Public Sector Assets (E(DL)).

THE SECRETARY OF STATE FOR ENERGY said that he accepted that, in the light of the Monopolies and Mergers Commission's (MMC) report of July 1980, action should be taken to tackle the problems of unfair competition by removing BGC's present domination of the gas appliances market. To this end, he recommended that BGC should hive off the retail sale of gas appliances into a separate subsidiary, that they should continue to buy gas appliances wholesale but should sell them to reputable private retailers and their own subsidiary on the same terms, and that the retailing subsidiary should be sold to the private sector when practicable. The alternative, of requiring the BGC to withdraw from gas retailing over a period, was open to a number of practical difficulties. BGC did not want to sell their showrooms, and to force them to do so would probably require primary legislation; he could not be certain whether this was so until, as he was required by the Gas Act 1972, he had formally consulted the Corporation and satisfied himself that a direction under that Act would not impede the proper discharge of their statutory duties. It was likely that BGC would produce substantial arguments against such a direction, in part because large numbers of people used gas showrooms for paying their bills and for seeking advice. Both manufacturers' and consumers' organisations were generally opposed to BGC withdrawing from this market and the unpopularity of the change would mean that problems of safety would be highlighted; legislation would be necessary to deal with safety regulations, both for standards of gas appliances and for standards of installation and servicing. The unions concerned were campaigning vigorously against the possibility of the move to force BGC out of the market, and there was a possibility that they would carry out their threat of disruptive action. His own proposal, while going further than BGC would wish, would largely avoid these problems while leaving open the possibility of privatisation at a later date.

THE MINISTER OF STATE, DEPARTMENT OF TRADE, said that she strongly recommended that BGC should be required to withdraw from gas retailing over five years, disposing of half of their 931 showrooms within two years, a quarter in the following year, and the remaining quarter in the final two years. The Government could not defend, particularly to its own supporters, any less robust response to the MMC's highly critical report of the damage to manufacturing and consumer interests caused by the present arrangements. In her view, BGC could withdraw from gas retailing over three years, but she recommended a five year period to ensure that the manufacturers and retailers had the fullest opportunity to respond to the challenge. To make progress, and to avoid the risk of protracted consultations with BGC, it would be better to accept forthwith the need for primary legislation rather than rely on a direction under present powers. It would be important to ensure adequate safety precautions under the new arrangements. BGC were, however, grossly exaggerating the safety risks involved in making the change; they already sub-contracted 92 per cent of the work on central heating installation to registered private sector firms, and the installation of other gas appliances was a relatively simpler task. The Corporation also exaggerated the present role of their showrooms: they did not deal either with emergencies or with queries on bills, and all that was needed, when they had withdrawn from retailing, was revised arrangements for bill paying and for dispensing general advice. Without information from BGC it was difficult to estimate the likely receipts from disposals, but her own very provisional estimate was that the value of showrooms and of stocks could be as much as £200 million.

In discussion there was general support for the approach recommended by the Minister of State, Department of Trade. In further discussion the following were the main points made -

a. It would be better for further work to proceed on the assumption that primary legislation would be taken to put beyond doubt the question whether BGC could be forced to withdraw from appliance retailing and to sell their showrooms. When the Secretary of State for Energy consulted the Chairman of BGC on the proposals, and on the possibility of a direction, he should make clear that the Government were prepared to legislate. If, as a result, BGC were to accept a direction, the case for primary legislation could be examined again.

b. Even though the withdrawal would be phased over five years, there was a risk that British manufacturers might not respond to the challenge and that retailers would bring in imports. To guard against this, technical standards could be introduced which, though in harmony with European Community requirements, gave British manufacturers the best possible chance of competing successfully with foreign imports of gas appliances. There was also a need to take positive steps to encourage British manufacturers to invest and to develop their products in the new situation.

c. BGC were thought to have spent about £2 million on a public relations campaign in defence of their retailing activities. This came near to a case of public money being used for political purposes; and, if he judged it to be appropriate, the Home Secretary might consider raising the matter with the Independent Broadcasting Authority. BGC's campaign was, moreover, only one of a number of examples of massive public relations exercises by nationalised industries and other public bodies to bring pressure on the Government to fall in with their objectives.

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed with the proposals of the Minister of State, Department of Trade. The implementation of this decision deserved high political priority and an announcement of it should be made as soon as possible to bring the present uncertainty to an end. To avoid the possibility of delay, pending consultation with the BGC, further work should proceed on the assumption that primary legislation would be introduced to enable the decision to be implemented and to deal, as necessary, with any provisions for safety requirements. It would be necessary to consider the implications for the 1981-82 Legislative Programme of the inclusion of the Gas (Industrial and Commercial Supplies) Bill extended in this way; it could be necessary to exclude other Bills, probably the Insolvency Bill, as a result. BGC should be formally consulted on the decision and informed that the Government was prepared to introduce legislation to give effect to it. If BGC were then to agree to accept a direction under the present powers, the case for, and scope of, primary legislation could be reconsidered. It would also be necessary to consider what further steps, including the introduction of new mandatory technical standards, should be taken to stimulate British manufacturers to respond to this challenge and to reduce the risks of imports.

The Committee -

1. Agreed that the British Gas Corporation should be required to withdraw from gas appliance retailing and to dispose of their showrooms, over five years, on the lines proposed by the Minister of State, Department of Trade.
2. Invited the Secretary of State for Energy to consult the British Gas Corporation on the basis that the Government was prepared to take primary legislation to give effect to this decision, and to report the outcome.
3. Invited the Home Secretary to arrange for The Queen's Speeches and Future Legislation Committee to take account, in their further report to Cabinet on the 1981-82 Legislative Programme, of the implications of including the proposed Gas (Industrial and Commercial Supplies) Bill extended to provide for the withdrawal of the British Gas Corporation from gas appliance retailing and, as necessary, for further safety regulations, and to report to the Cabinet.
4. Invited the Secretary of State for Industry to consider further how best to stimulate British manufacturers of gas appliances to respond to this change, and to avoid a growth in imports.
5. Invited the Secretary of State for Trade -
 - i. To consider the introduction of new mandatory technical standards for gas appliances.
 - ii. To announce, as soon as possible, and in consultation with the Secretary of State for Energy, the Government's response to the report of July 1980 by the Monopolies and Mergers Commission on the retailing of domestic gas appliances.

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2. AN EIGHTH ROUND OF OFFSHORE LICENSING

The Committee considered a Memorandum by the Secretary of State for Energy (S(81) 65) on an eighth round of offshore licensing.

THE SECRETARY OF STATE FOR ENERGY said that he proposed that a relatively small round of licensing of up to 40 blocks should be announced in July and that the closing date for applications should be either December 1981 or January 1982 with awards in the late spring of 1982. The aim would be to retain oil company interest in the United Kingdom Continental Shelf (UKCS), to keep up the momentum of exploration, and to rebut any suggestion that the Government was reluctant to put to the test the attractiveness of the UKCS under the new oil tax regime. The round would be specifically aimed at pushing exploration into new and unexplored areas and, because of the risks, he recommended against demanding cash payments for the blocks. He judged that substantial revenue from cash premia could be obtained from further licensing rounds in two or three years time.

THE CHANCELLOR OF THE EXCHEQUER said that he would strongly prefer to delay the introduction of an eighth round of licensing so that the earliest closing date for applications was late July 1982 and preferably a few months later. The applications would then be received after the passage of the 1982 Finance Bill which would include permanent legislation for the North Sea tax regime. It would avoid the danger, which the Secretary of State for Energy's timetable carried, that the major oil companies would attempt to put pressure on the Government, while the 1982 Finance Bill was still under consideration, by a deliberately disappointing response to the eighth round.

THE PRIME MINISTER, summing up a short discussion, said that the Committee agreed that the introduction of the eighth round of offshore licensing should be deferred. In addition to the arguments put forward by the Chancellor of the Exchequer, it seemed unnecessary to go ahead so soon after the seventh round with the licensing of high-risk blocks at a time when there was an oil

glut and the oil companies were antagonistic to the taxes imposed on them by the Government; delay would also give time to consider further the implications for the fishing industry. The Secretary of State for Energy was free to say publicly that the possibility of an eighth round was under consideration but that, if it were to go ahead in 1982, the closing date for applications would be in the second half of the year.

The Committee -

1. Agreed not to proceed now with an eighth round of offshore licensing.
2. Invited the Secretary of State for Energy -
 - i. To put forward further proposals in due course for an eighth round with the closing date for applications in the second half of 1982.
 - ii. To be guided, in the meantime, in any public statement on the timing of the eighth round by the Prime Minister's summing up of their discussion.

Cabinet Office

24 June 1981