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E(83) 1st Meeting

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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at
10 Downing Street on
THURSDAY 10 FEBRUARY 1983 at 11.30 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 Keith Joseph MP
Secretary of State for Education
and Science

The Rt Hon James Prior MP
Secretary of State for
Northern Ireland

The Rt Hon Peter Walker MP
Minister of Agriculture,
Fisheries and Food

The Rt Hon Patrick Jenkin MP
Secretary of State for Industry

The Rt Hon David Howell MP
Secretary of State for Transport

The Rt Hon Leon Brittan QC MP
Chief Secretary, Treasury

The Rt Hon Baroness Young
Lord Privy Seal

The Rt Hon Nigel Lawson MP
Secretary of State for Energy

The Rt Hon Norman Tebbit MP
Secretary of State for Employment

The Rt Hon Cecil Parkinson MP
Chancellor of the Duchy of Lancaster
and Paymaster General

The Rt Hon Lord Cockfield
Secretary of State for Trade

The Rt Hon Tom King MP
Secretary of State for the
Environment

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THE FOLLOWING WERE ALSO PRESENT

The Rt Hon George Younger MP
Secretary of State for Scotland

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales

The Rt Hon John Biffen MP
Lord President of the Council

The Rt Hon Michael Jopling MP
Parliamentary Secretary, Treasury

Mr J Sparrow
Central Policy Review Staff

SECRETARIAT

Sir Robert Armstrong
Mr P L Gregson
Mr M S Buckley

SUBJECT

GAS APPLIANCE RETAILING

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GAS APPLIANCE RETAILING

Previous Reference: E(81) 21st Meeting, Item 1

The Committee considered a Memorandum by the Secretary of State for Energy (E(83) 1) about gas appliance retailing. They also had before them a letter of 3 February from the Head of the Central Policy Review Staff (CPRS) to the Secretary of State for Energy on the same subject.

THE SECRETARY OF STATE FOR ENERGY said that the Committee had previously decided that the British Gas Corporation (BGC) should be required to withdraw from gas appliance retailing and to dispose of their showrooms. This decision had been announced in July 1981. The fact that it entailed legislation had led to some delay. It was now clear that it was unrealistic to aim at implementing the previous decision before a General Election. The forced sale or closure of gas showrooms would be a lengthy process. There would be widespread public and Parliamentary criticism (including criticism from the Government's own supporters), as well as the possibility of industrial action in the gas industry. In response to sustained pressure, the BGC had submitted proposals for changing their gas appliance retailing business. Under these proposals, the retailing business would be made separate and clearly identifiable, both managerially and financially. Separate audited accounts would be prepared. Those showrooms which the revised accounting procedures showed to be uneconomic would be closed. The BGC would make services available to the private sector on comparable terms to those available to their own appliance retailing business. They would also seek to encourage competition in appliance purchasing and manufacturing by undertaking not to indulge in any unfair competitive practices. In his view, these proposals were broadly acceptable, though only as an interim measure: the Government would wish to return to its aim of privatisation after an Election. Consultation with private retailers suggested that they would regard the proposals as satisfactory, provided that they were coupled with the establishment of a stringent safety regime applying to all retailers and installers of gas appliances: this would counter the BGC's claims that they alone had satisfactory safety standards. It would also be desirable, as suggested by the Head of the CPRS, for the BGC's auditors to agree with him appropriate accounting methods for the separate retailing business. The BGC

had now decided to put their proposals into effect in any event. They would probably make an announcement to this effect in due course. When they did so, he would welcome the proposals as a step in the right direction.

THE SECRETARY OF STATE FOR TRADE said that to accept the BGC's proposals, even as an interim measure, would represent a reversal of previously-announced Government policy. He accepted that it was unavoidable, for the reasons outlined by the Secretary of State for Energy; but it would be important to avoid suggesting that the Government positively welcomed the position. It would also be important to ensure that the accounting methods for the separate retailing business were acceptable, as suggested by the Head of the CPRS; that the BGC's retailing business earned a rate of profit no less than that of private retailers; and that the BGC should be prevented from using their dominant position in certain parts of the market for gas appliances to stop manufacturers selling appliances on comparable terms to private retailers.

THE PRIME MINISTER, summing up the discussion, said that the Committee endorsed the proposals in E(83) 1. This endorsement was subject to the conditions that the Secretary of State for Energy would approve, in advance, the accounting methods to be used for the BGC's separate appliance retailing business, as suggested by the Head of the CPRS; that he would ensure that private sector retailers were able to buy gas appliances from the manufacturers on the same terms as the BGC; and that nothing should be said or done which might prejudice the ability of the Government to move towards the privatisation of BGC's appliance retailing, wholesaling, and installation business early in the next Parliament. The Committee recognised that the BGC would be able, in accordance with normal commercial practice, to secure substantial quantity discounts from gas appliance manufacturers; the essential point was that all retailers buying similar quantities should be able to enjoy similar terms. No Government statement should be made at the present time. When the BGC made their intentions known, the Secretary of State for Energy should respond in a low-key way on the lines he had indicated, and taking account of the points made in the Committee's discussion. He should avoid using phrases which suggested that the Government positively welcomed the BGC's proposals; the proposals were to be accepted as an interim measure.

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The Committee -

1. Approved the proposals in E(85) 1, subject to the points made in the Prime Minister's summing up.
2. Invited the Secretary of State for Energy to be guided by the Prime Minister's summing up in responding to any announcement by the British Gas Corporation of their intention to establish a separate gas appliance retailing business.

Cabinet Office

10 February 1983

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