



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

a Mr Lygham ←

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✓ *Mr Hooshyans*

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.

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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
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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.

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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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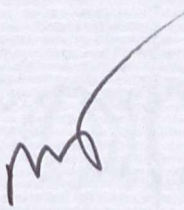


contentious Bill. It would seem necessary for any decision to proceed along the lines suggested by the Minister of State, Department of Trade, to be dependent on the further advice we have commissioned on the possible legal and legislative difficulties about the course.

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


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