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**BRITISH
GAS**



Sir Denis Rooke CBE FRSE FENG
Chairman

DER/BH

24th June, 1981.

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

British Gas Corporation

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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