

P.0958

PRIME MINISTER

Gas Appliance Retailing:

E(83)1

BACKGROUND

Although the British Gas Corporation (BGC) has no statutory monopoly over the retail sale of gas appliances, it has a dominant market share. In a report published in July 1980, the Monopolies and Mergers Commission (MMC) concluded that this acted against the public interest. The MMC said that BGC was able to demand advantageous terms from suppliers; that it subsidised sales of appliances from sales of gas, thus inhibiting competition; and that the close relationship between the BGC and the appliance manufacturers had reduced competitive pressures on the latter to increase efficiency.

2. The Ministerial Sub-Committee on the Disposal of Public Sector Assets (E(DL)) accepted the MMC's analysis and discussed two main ways of opening up the selling of gas appliances to private sector competition:

(i) require the BGC to withdraw from gas appliance retailing and to dispose of its showrooms over a period of five years;

(ii) hive off retail sales of gas appliances into a separate subsidiary; this could be sold to the private sector if it developed into a viable business.

3. Views in E(DL) were divided; and the matter was referred to the Ministerial Committee on Economic Strategy. This decided in favour of requiring withdrawal over a period of five years (E(81)21st Meeting, Item 1). The decision was announced on 8 July 1981.

4. When the decision was taken it was recognised that new statutory provisions would be required both to enforce disposal and to strengthen the safety requirements on installers of gas appliances. Because of pressure on the

CONFIDENTIAL

1981-82 legislative programme, the Cabinet decided not to promote such provisions in full (CC(81)32nd Conclusions, Minute 5); but powers were taken in the Oil and Gas (Enterprise) Act to enforce disposal.

5. In his memorandum E(83)1 the Secretary of State for Energy argues that it is not realistic to proceed, at this stage in the life of the present Parliament, with the 1981 decision. Instead, he proposes that the Government should welcome proposals which the BGC has put forward for separating the appliance business in the Corporation's accounts from other business. Any showrooms shown by the new accounting procedures to be uneconomic would be closed. The BGC would make its services and spare parts available to the private sector on the same terms as to its own retailing business. It would undertake not to indulge in unfair competitive practices. The Government would review the position in the next Parliament in the light of progress. By implication, it would reserve the right to revert to the course announced in July 1981. It might alternatively decide to privatise the new separate business.

6. A number of your colleagues have expressed reservations about these proposals. In particular, the Chancellor of the Exchequer (letter of 8 December) has suggested that they are an inadequate response to the MMC recommendations; that private sector retailers would be unwilling to rely on the BGC for important supplies and services and would therefore be unwilling to enter the market; and that the possibility of eventual privatisation is at best uncertain, and could even be reduced by the Secretary of State for Energy's proposals.

7. Mr Sparrow (letter of 3 February) has written, in principle supporting the proposals in E(83)1, but suggesting that the accounting methods for the separate appliance business should be agreed in advance with the Secretary of State.

MAIN ISSUES

8. The main issues before the Committee are as follows:



CONFIDENTIAL

- (i) Should the 1981 decision be reaffirmed; the proposals in E(83)1 be accepted; or some alternative be adopted?
- (ii) Does the decision under (i) above require any further work to be done?
- (iii) Is any announcement on the Government's decision required?

The decision of substance

9. The main arguments for and against the various possibilities are set out in paragraph 4 of E(83)1. There are, however, some additional points which you may wish the Committee to consider:

(a) The difference between course 4(d), which the Secretary of State for Energy favours and course 4(c), which he regards as unacceptable, is that the BGC's proposals are presented as a possible step on the way to implementation of the Government's original 1981 proposals. As he says: "We should review the position in the next Parliament when the increased opportunities for competition have had a chance to have effect; with privatisation, preferably in the form of the flotation or sale of one or more going concerns as an important option". If this is brought out strongly (as it will need to be if the Government is not to appear to have climbed down), is the Secretary of State satisfied that there will nevertheless be much less risk of controversy and trouble than would be involved in pressing ahead now with the original proposals?

(b) How likely is it, under the BGC's proposals, that private sector retailers will enter the market? To the extent that the private sector retailers expect BGC to remain active in appliance retailing they may be deterred by the costs of entry. To the extent that they expect privatisation they may prefer to wait and try to buy BGC's established business rather than take the risk of creating new competition.

Further work

10. It may be necessary to commission further work, depending on the main decisions taken by the Committee:



CONFIDENTIAL

(a) If the Committee accepts the proposals in E(83)1, it may be necessary to give further consideration to the basis on which the separate retailing business is established. Mr Sparrow's letter of 3 February indicates one area where further thought may be required (accounting methods). Are there others: in particular, are there any ways in which private sector involvement could be encouraged?

(b) If the Committee reaffirms the 1981 decision, is any further work needed on safety requirements? These are mentioned in paragraph 2 of E(83)1; they were also a prime cause of concern to consumer interests and others during the discussion of the original MMC report.

If further work is needed, it will probably be appropriate to invite the Secretary of State for Energy to undertake it, consulting other Ministers as appropriate, and to report the results to the Committee.

Announcements

11. If the Committee decides to change the 1981 decision a public announcement to that effect will presumably be required. If the 1981 decision is reaffirmed there is no formal need for a public announcement; but it would be necessary to convey the Government's decision to the BGC, and the matter would become public. In either event therefore an announcement would be desirable. You will probably wish to invite the Secretary of State for Energy to circulate any text in draft to the Committee.

HANDLING

12. You will wish to invite the Secretary of State for Energy to introduce his memorandum. The Secretary of State for Trade (because of his interest in the MMC) and the Chief Secretary, Treasury (because of the Treasury's

CONFIDENTIAL

CONFIDENTIAL

general interest in the disposal programme) will wish to contribute to the discussion. Other colleagues will also wish to speak, either from the standpoint of their own disposal programmes or because of the general political and public interest in the disposal of gas showrooms. Mr Sparrow may wish to elaborate the ideas in his letter of 3 February.

CONCLUSIONS

13. You will wish the Committee to reach conclusions on:

- (i) whether it accepts the proposals in E(83)1, or favours one of the alternatives described in paragraph 4 of that memorandum;
- (ii) whether any further work is needed; and
- (iii) any announcements of the Government's decision.

PLG

P L GREGSON

Cabinet Office.

8th February 1983



JU818
Secretary of State for Industry

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

4 February 1983

CONFIDENTIAL

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1

Dear Geoffrey,

GAS APPLIANCE RETAILING

I have seen a copy of Nigel Lawson's letter to you of 5 January on this subject, together with the earlier correspondence. You invited views and I am writing with these in anticipation of the E Committee meeting next Thursday.

2 On industrial grounds there are very good reasons for favouring progress towards the appliance retailing changes we all desire. However, some parts of the gas appliance industry are fearful that too precipitate a change from their dependence on British Gas retailing outlets, together with British Gas marketing, spares and service back-up, will lead to a collapse of the market and open up opportunities for imported appliances to gain market share at the expense of UK manufacturers. Although there are real risks, I believe that this is altogether too negative a reaction. The more forward looking members of the industry acknowledge the stultifying effect of the over-close relationship with BGC. Spurred by genuine competition to undertake more design and marketing themselves, the industry may at last be able to make some impact in export markets as well as hold on to sales at home.

3 That is why John MacGregor suggested a compromise proposal at E Committee of a fairly rapid disposal of the majority of the BGC showrooms whilst allowing them to retain a presence in the market for the time being.

4 Provided that there were proper safeguards to ensure continuity of installation, spares and service I believe that the Society of British Gas Industries, despite the widespread concern in the Industry, would still welcome a shift away from the over dependence on BGC if a reasonable transition period were proposed for this change-over.



Wat Id, t
Guss e Elect, PM

5 Whilst our objective, therefore, should remain as the transfer of British Gas retailing activities to the private sector, we have to recognise the practical problems at the moment, especially those of timing. The consumer organisations and many other bodies have all made known their opposition to British Gas being forced to stop retailing. As Nigel Lawson points out, the forced early closure of showrooms by reluctant BGC, with the possibility of industrial action, may not be the most attractive and timely thing to do at this precise moment, given the amount of public and Parliamentary criticism which would inevitably be generated during a run-up to the election. I therefore conclude that it is better to welcome the BGC proposals as a modest, but interim, step in the right direction by BGC.

6 We must make it clear, however, that it is acceptable only as an interim solution. Therefore, whilst we welcome the proposals we should make it clear that we have not accepted them as the full answer to the Monopolies and Mergers Commission criticisms. In this way we reserve our options for more radical action at a later date.

7 British Gas Corporation will have every incentive to make their proposals work. Meanwhile the private sector can go on enlarging its stake in gas appliances sales and the appliance industry continue to reduce its dependence on British Gas, without too sudden changes which might adversely affect the manufacturers.

8 I am copying this letter to the Prime Minister, to Members of E Committee and to Sir Robert Armstrong.

44 JAN 1983



You are
Katie

for E folder

Prime Minister

Mes 3/2

PRIME MINISTERPOLICY UNIT
3 February 1983

cc Mr Walters

E, 10 FEBRUARY: GAS APPLIANCE RETAILING

We are surprised that Nigel Lawson comes down so firmly against pressing ahead with the July 1981 decision of E to begin forced sale or closure of the gas showrooms. The BGC proposals would leave BGC in a dominant position in the retail trade, with a potential for great influence over the manufacturers; and we do not believe that what they propose provides a stepping stone towards a more radical approach. It is more likely that going down the BGC route will be held to be a reason for not adopting the policy which we have already decided is right.

You may want to remind your colleagues of two crucial points:

- (i) Gas appliance retailing provides a unique physical manifestation of what this Government is in business to get rid of: unnecessary state monopoly. If we do not implement our strategy here, what hope is there in less clear cut cases;
- (ii) Far too many decisions are now being postponed until after the election. It is wrong to assume that courses of action against which there seem to be overwhelming objections now will suddenly become straightforward in the post-election period.

We think you should also challenge Mr Lawson on his three objections:

- (i) That sale or closure would be a lengthy process, which could not be completed before the election. That is a reason for starting now, not later; and completion before the election is not as important as starting before then;
- (ii) That there would be widespread public and Parliamentary

criticism, on both sides of the House. We do not see why this should be so. People are well accustomed to buying major electrical appliances from private firms without the slightest anxiety about safety. And the vast majority of our supporters in the House will welcome a move in the direction of reduced state monopoly;

(iii) That there would be a possibility of industrial action in the gas industry. This certainly needs to be considered, particularly since David Basnett has made it clear that he would be prepared to try it. But if we wait until the present pay negotiations are concluded, which is a matter of weeks rather than months, we doubt if showroom closures would prove a sufficiently provocative issue to give rise to serious industrial action.

fm
FERDINAND MOUNT



cc J.VI
Nat. Ind.

CABINET OFFICE
Central Policy Review Staff

70 Whitehall, London SW1A 2AS Telephone 01-233 7765

Qa 06248

From: John Sparrow

CONFIDENTIAL

3 February 1983

The Rt Hon Nigel Lawson MP
Department of Energy
Thames House South
SW1

Dear Nigel,

Gas Appliance Retailing (E(83)1)

In principle, as you are aware from our work on the State Monopolies, the CPRS favours removing competitive activities from monopoly nationalised industries. In the case of gas showrooms there is evidence of inefficiency and losses subsidised by profits earned from the monopoly supply of gas. But for the reasons given in your paper, I agree that option (d) is the best course to follow at present, and I support your recommendation.

However, it occurs to me that there might be some difficulty in practice with BGC's first proposal (your paragraph 3(i)). This provides that "costs and revenues would be fairly allocated and subject to scrutiny by their auditors". The interpretation of what is fair leaves a great deal of room for manoeuvre; auditors come to the view that financial results do not show a true and fair view only after a great deal of soul searching and only if a course of action is plainly outside a wide band of acceptability.

I suspect that the reported results of the appliance retailing business will be significantly affected by the accounting bases on which costs and revenues are allocated, and services rendered, such as the collection of gas bills, are charged.

If there is a potential problem here, it would be better to sort it out at the conceptual stage, when accounting methods are determined, than when the first set of accounts is produced on whatever basis has been chosen. Instead of leaving BGC to determine these matters with the auditors (who,

Acc. matters.

CONFIDENTIAL

after all, are your auditors, not BGC's - under the statute their job is to report to you on the Board's stewardship of the business), it might be better for BGC to determine the basis it proposes to adopt and for this to be reviewed, by the auditors (or by independent consultants) in a detailed report to you. You can then be satisfied that the proposed bases are acceptable, before accounts are prepared.

I am sending copies of this letter to the Prime Minister, the other members of E and Sir Robert Armstrong.

Yours sincerely,

John.

John Sparrow

CONFIDENTIAL



CG JV

2 pps

ABPM

ms 14/1

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

13 January 1983

The Rt Hon Nigel Lawson MP
Secretary of State for Energy

Dear Nigel

GAS APPLIANCE RETAILING

Thank you for your letter of 5 January. You have also seen Arthur Cockfield's letter to me of 7 December and Michael Heseltine's of 29 December.

I note your arguments about the political dimension of this issue. I believe that the most appropriate course is for the subject now to be discussed in E(DL). I should be grateful if the Cabinet Office would take the necessary steps to arrange this.

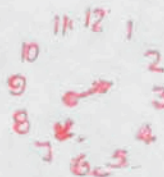
I am copying this letter to the Prime Minister, to other colleagues on E Committee and to Sir Robert Armstrong.

A large, stylized handwritten signature in dark ink, appearing to read 'Geoffrey Howe'.

GEOFFREY HOWE

CONFIDENTIAL

14 JAN 1963



nat. ind. EX JV

Prime Minister (2)

Ms 6/1

DEPARTMENT OF STATE FOR ENERGY
THE HOUSE SOUTH
PARLIAMENT, LONDON SW1E 2QP

01 211 6402

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London
SW1

5 January 1983

Dear Chancellor,

ms

GAS APPLIANCE RETAILING

Thank you for your letter of 8 December.

My letter of 25 November did not recommend that we "accept" BGC's proposals - which have been extracted from them only with very considerable difficulty - as being an adequate response to the MMC report, merely that we should welcome them as making commercial sense and constituting a step in the right direction. We would not therefore be reversing the policy announced to Parliament, but in effect deferring a decision to implement it until the next Parliament. Although I accept Arthur Cockfield's point, in his letter to you of 7 December, that our public presentation of this would need careful consideration, I do not believe it presents an insurmountable problem.

If the Government is not prepared to welcome BGC's proposals as making commercial sense, then we must consider the alternatives:

- (1) We could press ahead with the decision announced in July 1981. We would need to decide whether BGC should be required to sell their appliance retailing activities as going concerns or to dispose of some or all the showrooms, and then to consult BGC on the form of the necessary Direction. There would be widespread public and Parliamentary criticism, on both sides of the House, as well as the possibility of industrial action in the gas industry. The forced sale or closure of showrooms would be a further lengthy process. In short, this is not a realistic or politically intelligent option: we could not achieve our objective before the Election and we would simply be inviting adverse publicity and creating divisions within the Party during the crucial pre-election period.

- (2) We could do nothing. BGC might or might not wish to implement their proposals anyway and I could not prevent them from doing so. The Government would still be faced with the presentation problem of continuing to delay implementation of the decision announced in July 1981 and if BGC were to make public their proposals it would be very difficult not to endorse them as being commercially sensible.

On the substance of BGC's proposals, restructuring the Appliance Retailing Account based on twelve regional profit centres will provide a statement of revenue costs and profits which will enable us to make the comparisons with private businesses suggested by the MMC. On the whole, I do not believe it would be sensible to set profit levels in advance but we would of course be able to monitor the profitability of the activity.

The MMC's requirements in relation to buying prices would be met in full and BGC have also agreed that their buying arrangements with the manufacturers would be open to scrutiny by the OFT.

You suggested that BGC would be unlikely to close or dispose of their town-centre showrooms. There is, of course, no suggestion in the MMC Report that BGC should be obliged to close or dispose of showrooms according to their location - the criterion for closure would be profitability.

Thus BGC's proposals do not fall short of the MMC's less radical option. If they are implemented properly, and I have an assurance from the Corporation's external part time members that they would be, BGC's dominance in the market should be reduced. My discussions with the leading private retailers do not bear out your suggestion that it would be implausible to expect them to make the necessary investment. Indeed they have indicated to me that they would welcome the proposed measures.

I strongly believe that the only sensible way forward at this stage is to welcome the BGC proposals as a step in the right direction, leaving the way clear to take action in the next Parliament. If the proposals are implemented and BGC achieves profitability at a significantly reduced market share this opens up the possibility of floating a company or companies and privatising the showrooms that way. Hitherto, we have been unwilling to consider this option, despite its manifest advantages, since so long as BGC have a monopoly of appliance retailing it would mean replacing a public sector monopoly by a private sector monopoly, which is unacceptable.

I am copying this letter to the Prime Minister and in view of the wider implications of the issues, to other colleagues on E Committee (together with the previous correspondence to those who have not seen it) as well as to Sir Robert Armstrong.

Yours sincerely,
C. Brooks

REY 10
NIGEL LAWSON
(Approved by the Secretary of State
and signed in his absence)

Atk Ind's Gas Electron Part 7

5 JAN 1983

12 23
11 4
10 5
9 6
8 7



2 MARSHAM STREET
LONDON SW1P 3EB

My ref: H/PSO/18596/82

Your ref:

29 DEC 82

Prime Minister

[Handwritten initials]

[Handwritten initials]

3712

[Handwritten signature]

GAS APPLIANCE RETAILING

I have seen Nigel Lawson's letter to you of 25 November, and your reply of 8 December.

Like you, I think that the BGC's proposals for a reorganisation of their system of retailing gas appliances is an unsatisfactory substitute for the privatisation of these operations, which we agreed should be done at E Committee nearly 18 months ago and have publicly announced.

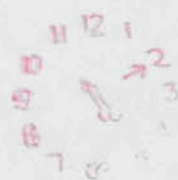
If we change our policy now, in response to pressure from BGC and the unions, we shall endanger other parts of our privatisation programme, and weaken our efforts to bring the nationalised industries under control. I therefore think that we should reject the BGC's proposals; but if Nigel Lawson wants to press, I suggest they should be examined at E again.

I am copying this letter to the Prime Minister, members of E(DL), and Sir Robert Armstrong.

[Handwritten signature]

MICHAEL HESELTINE

3 0 DEC 1982





Prime Minister (2)

KLS 8/12

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

8 December 1982

The Rt Hon Nigel Lawson MP
Secretary of State for Energy
Thames House South
Millbank
SW1P 4QJ

GAS APPLIANCE RETAILING

Thank you for your letter of 25 November.

If we accepted BGC's proposal, we would in effect reverse the conclusions reached in E Committee in June 1981 and the policy announced to Parliament by Sally Oppenheim in the following month. Furthermore, the Corporation's proposal hardly seems an adequate response to the Monopolies Commission's strong criticism of the Corporation's trading practices.

Indeed, the response falls short in a number of respects of the less radical of the two options put forward by the Monopolies Commission. For example, there is nothing to stop BGC setting low profit targets for the retail business; there is nothing to stop manufacturers, who value their relationship with the dominant retailer, from offering favourable terms to BGC; and BGC is most unlikely to close or dispose of its town-centre showrooms, except in rural areas where the private sector would be unwilling to step in.

But, more fundamentally, BGC would remain the dominant retailer with the potential for great influence over the manufacturers and with the power to change its policy with respect to competing retailers if it felt it could get away with it. Reliance on BGC for wholesaling services could not give them much confidence. In these circumstances, it surely is implausible to expect the private sector retailers to invest the quite substantial sums required for premises and stocks needed to remove BGC's market dominance against such an uncertain future.

For all these reasons, although BGC's proposal could look like a stepping stone to divestment in the future, I still have doubts whether it should be accepted even on that basis. To accept them today might even weaken the case for eventual divestment; and it would not meet the

CONFIDENTIAL



criticisms of the Monopolies Commission. I recognise the political and industrial relations arguments but I am not convinced they are a sufficient reason for us to avoid dealing with the abuse of monopoly which the Commission found. I think that we have a reasonable case to make on the maintenance of safety in the light of recent work on setting standards for gas installers. You have also obtained powers to oblige BGC to divest itself of the showrooms in the Oil and Gas (Enterprise) Act.

I should be glad to have your further views and those of colleagues.

I am copying this to the Prime Minister, members of E(DL) and to Sir Robert Armstrong.

A handwritten signature in black ink, appearing to be "J. H. S.", written over a large, light-colored scribble.

GEOFFREY HOWE

CONFIDENTIAL



✓ CE JV
Prime Minister (2)

From the Secretary of State

MS 8/12

The Chancellor of the Exchequer
H M Treasury
London
SW1

7 December 1982

Ben Geoffrey
GAS APPLIANCE RETAILING

I have seen a copy of Nigel Lawson's letter to you of 25 November.

If one is seriously interested in privatisation then privatising the gas showrooms would be an obvious priority.

Leaving this on one side the proposals set out in Nigel Lawson's letter represent a complete change from the decision which we took in E last year, and which Sally Oppenheim announced in her statement to Parliament on 8 July 1981; and we shall all need to consider how to justify the Government's stance if the Government were to welcome proposals so very different from those we had previously decided upon.

For my part, I shall need time to consider the BGC's proposals in much more detail than is given in Nigel Lawson's letter. Given the provisions of the Fair Trading Act, there is an essential question for us to consider before giving any agreement to the BGC's proposals. It is whether the proposals can be said to represent a remedy to the adverse effects on the public interest (affecting both consumers and the appliance industry) which the MMC identified as consequences of the BGC's monopoly of gas appliance retailing. More widely, I shall also need to consider whether the BGC's proposals would help or hinder me in taking measures



From the Secretary of State

on the adverse effects of the gas appliance manufacturers' monopolies identified by the Commission. I am therefore asking my officials to take up these questions with Nigel Lawson's, so that I can have a full picture.

In the meanwhile, I think that the Government must rigorously avoid giving any impression to the BGC that we accept their proposals. The proposals as they stand, would, after all, leave BGC with a substantial monopoly of the supply of gas appliances - moreover a monopoly which is exceptional in being a retailing monopoly and unique in being a public sector retailing monopoly, as well as having been found to be against the public interest. We should consider our stance very carefully before lightly reversing our earlier policy and acquiescing in the monopoly continuing.

I am copying this letter to the Prime Minister, Members of E(DL) and to Sir Robert Armstrong.

LORD COCKFIELD

Nat Ind. Case Elect, Pt 7

8 DEC 1982

12 1 2 3
4 5 6 7 8 9 10

✓ JV



Prime Minister

(2)

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
01-211 6402

MS 25/11

The Rt Hon Geoffrey Howe QC MP
Chancellor of the Exchequer
H M Treasury
Parliament Street
London SW1

25th November 1982

[Handwritten signature]

[Handwritten initials]

GAS APPLIANCE RETAILING

I am writing to bring colleagues up to date on progress in tackling the problems identified in the MMC Report on gas appliance retailing.

Following our decision (E(81)21st meeting) that BGC should be required to withdraw from gas appliance retailing and to dispose of their showrooms, we agreed (CC(81)32nd Conclusions Minute 5) to defer action because of severe congestion in the legislative programme for 1981/82 and our concern about the level of support for such action among Government supporters. We nevertheless agreed to take powers enabling us to direct BGC to dispose of inter alia, their gas appliance retailing activity and their showrooms in the Oil and Gas (Enterprise) Act.

The delay also allowed time for careful consideration of the safety issues which was essential if we were to fulfil our commitment that safety standards would be maintained. This has been a difficult and complex task, and consultations with colleagues on appropriate legislative measures are not yet complete.

In the meantime, and in response to sustained pressure, BGC have at last submitted proposals for changing their gas appliance retailing business to meet the criticisms in the MMC Report. They propose that:-



- (i) BGC's appliance retailing business would be separate and clearly identifiable both managerially and financially. Separate appliance retailing profit centres would be established for each Region, costs and revenues would be fairly allocated and subject to scrutiny by their auditors - Audited Regional appliance retailing accounts would be made available to the Government and the Audited National appliance retailing account would be shown separately in the Corporation's Annual Report and Accounts.
- (ii) BGC would close those showrooms which the revised accounting procedures showed to be uneconomic.
- (iii) BGC would make available to the private sector, on comparable terms to those available to their own appliance retailing business, both their wholesaling service covering appliances and spare parts, and their comprehensive installation and contracting service.
- (iv) BGC would seek to encourage competition in appliance purchasing and manufacturing by undertaking not to indulge in any unfair competitive practices. (Their performance and any formal arrangements with the appliance manufacturers would be subject to scrutiny by the OFT).

Clearly BGC's proposals, on which they are anxious to begin early consultations with their unions, are sensible from their commercial viewpoint. The external part-time members (including my three most recent appointments) support them and intend to ensure that they are implemented rigorously. Provided they are indeed implemented properly (and I will monitor this carefully) they should provide an opportunity for market forces to work. This is likely to reduce BGC's dominance in the market. Indeed there has already been a substantial change in the market following the MMC inquiry. The number of private outlets retailing gas appliances has risen from 530 in 1978 to 2,270 in 1982, and BGC's market share has fallen in the case of gas fires, for example, from 78% in 1977/8 to 66% in 1981/2. My contacts with the private retailing sector indicate that the measures proposed will be welcomed by them and will help to carry this process further. Competition will also be helped by the steps to be taken to remove the public's perception that BGC are safer than the private sector. It is therefore important to press ahead with a safety regime which will ensure that safety standards are maintained once BGC's dominance of the gas appliance market is broken.



BGC's proposals clearly differ from the approach announced by Sally Oppenheim in July 1981. If implemented properly however they should constitute an important step in the right direction. In my view, it would be sensible to give these proposals a chance to work, given the powerful political reasons for not forcing the issue further for the time being. It would not be sensible in the run up to the General Election to direct BGC to dispose of their showrooms. Experience shows that we would meet strong opposition from among our own supporters, both inside and outside Parliament, (particularly in rural areas where the gap left by the withdrawal of BGC from appliance retailing would probably not be filled by the private sector), as well as from consumer representatives and the public in general. We would also run a serious risk of industrial action (there was a one-day strike involving 95% of BGC's workforce after Sally announced our decision in July 1981).

In the meantime, however, BGC must start to run their appliance retailing business commercially as soon as possible. I therefore propose that:-

- a) when BGC announce their intention to implement their proposals the Government should welcome them as an important step towards introducing full and fair competition to the market;
- b) the Government should allow time for the changes to have an effect on competition and on BGC's dominance of the market (provided that BGC are seen to be implementing the proposals properly - I would make it clear to BGC that implementation was being carefully monitored); and
- c) the Government should review the position when the increased opportunities for competition have had a chance to have effect.

All this would of course, leave us entirely free to take any further action that seemed appropriate in the next Parliament.

I am copying this to the Prime Minister, members of E(DL), and to Sir Robert Armstrong.

NIGEL LAWSON

25 NOV 1982

