CABINET

NATIONALISATION OF GAS

Memorandum by the Minister of Fuel and Power

14th April, 1947.

The object of this memorandum is to put before my colleagues the salient points about the nationalisation of gas - particularly that the case for nationalisation is a very strong one, that delay in nationalisation will be highly prejudicial both to the national economy and to the industry and that the Gas Nationalisation Bill is unlikely to be unduly controversial.

I. THE CASE FOR THE NATIONALISATION OF GAS

2. Gas is an old industry and its structure is Victorian. There are over 1,000 undertakings; about a third of the gas is supplied by municipalities and two-thirds by Companies. (See Annex, which also gives the comparable figures for electricity). The present geographical layout is a patchwork, like that of electricity, with an intermingling of municipal undertakings, independent companies and companies controlled by holding groups.

3. Technically, there are great variations in the efficiency and size of gas undertakings, which range from the London Gas Light and Coke Company, the largest in the world, to the numerous small country gasworks. Development of gas grids will never be nation-wide, as in electricity, but in densely populated areas there is a strong case for concentrating gas manufacture in large units and distributing it by means of grids. This has happened in Yorkshire and in London, but there is no reason, other than the antiquated structure of the industry, why there should not also be grids for such areas as Central Scotland, Lancashire, Midlands and South Wales. (In the latter case a grid is in fact being planned at the instigation of my Ministry (see L.P.(D.I.) (46) 103). Geographical reorganisation of the gas industry is most difficult with the present structure, but it is highly desirable in the interests of the supply of cheap and abundant gas to industry as well as to domestic consumers.

4. The unsatisfactory structure of the industry has long been recognised and in 1942 Sir Andrew Duncan, when President of the Board of Trade, invited the Gas Industry to submit suggestions for reorganisation. It was the inadequacy of these proposals which led to the setting up of the Committee under Mr. Geoffrey Heyworth, which reported in December, 1943 (Cmd. 6699: note maps).
5. The Heyworth Report said that:

"A basic change in the structure of the industry is the only approach that can produce really effective results quickly. The direction of the required change is clearly marked, namely towards groupings into larger units. This is preponderantly the view of the industry itself. It is in no sense a revolutionary idea; it is entirely consistent with past history, which shows a steadily accelerating trend towards integration". (Paragraphs 229-30).

The Committee recommended what was in effect a scheme of nationalisation under ten Regional Boards, to the ownership of which all existing undertakings were to be transferred. The industry is in fact dead ripe for nationalisation.

6. The nationalisation of gas supply was included in the Legislative Programme for this Parliament. With the nationalisation of coal and electricity, it will complete "the concerted plan for the co-ordination of the fuel and power industries" referred to in the King's Speech for 1945-6.

7. The gas industry has, so regards its organisation, been in a state of suspense since Sir Andrew Duncan's approach in 1942. Since that date the normal process of integration in the gas industry, by amalgamation and holding company acquisitions, has been deliberately checked by my Department.

8. The feeling of suspense in the industry was intensified when the Government's intention to nationalise was announced some 18 months ago. They are working on the assumption, indicated informally to them by the Ministry, that they will probably be nationalised in the next Session. The industry is opposed to nationalisation in principle, but they have voted emphatically in favour of co-operating with the Ministry in drawing up a scheme for reorganisation. Just before the fuel crisis, the British Gas Council put to the Ministry tentative proposals for Regional Boards and a Central Board, very similar to those which I suggest below and the Council is in fact working at the moment on the details of regional boundaries.

9. If I now had to tell the industry that nationalisation is postponed until 1943-9, the following results are probable:–

(a) This further delay, meaning an interval of at least four years between the announcement of nationalisation and the vesting date, and a much longer interval since re-organisation was first mooted in 1942, will be most prejudicial to the efficient development of the industry.

(b) A large section of the industry would assume that they were not going to be nationalised at all. The delay would strengthen the hand of the non-co-operators and weaken that of the public-spirited, who are becoming increasingly restive because of the delay. The co-operation of the industry in the planning of its nationalised structure might be withdrawn, perhaps for good.
(c) The Industry must spend much money in putting right arrears of maintenance. Development in gas supplies is necessary for new factories, e.g., in South Wales, and for the numerous housing estates now being erected. Further delay would mean that many undertakings would be reluctant to proceed with capital development. There are already certain difficulties about a financial assurance which had to be given last year to the industry, namely, that undertakings would neither lose nor gain, on nationalisation, by carrying out approved capital development in the interim period. Some undertakings are questioning the meaning of our assurance and even the Treasury now has some doubts about it. If the interim period is lengthened, we may well reach an impasse on this matter, with very serious results on the capital development of the industry.

(d) Until the new Regional Boards are set up, it is difficult to ensure that all the development schemes are on the right lines. There is a danger of parochial planning by each undertaking, particularly because there are no official co-ordinating bodies for gas like the Central Electricity Board and the Electricity Commission. The detailed supervision of the capital development programmes in this interim period lies, therefore, in effect with my Ministry, in virtue of our control over raw materials. The Ministry will be relieved of this responsibility by the passage of the Nationalisation Bill and the sooner this is done the better.

(e) Schemes like the gas grid being planned for the western part of South Wales (see L.P. (D.I.) (46) 103) can only at present be imposed on the existing mosaic of undertakings — without setting up a new Board with overriding powers for the whole area — because the industry is shortly to be nationalised. If nationalisation is postponed we shall almost certainly have to go to Parliament next year with a Bill to set up an interim organisation in this area and perhaps in others.

(f) The gas industry will suffer vis-a-vis electricity, if the time between the nationalisation of the two industries is at all prolonged. Although gas probably has an important part to play in our national economy for many years, it is, of the two industries, obviously the one which is on the defensive. This means that the two industries ought, as soon as possible, to have organisations which are comparably efficient.

(g) Delay would prejudice our general policy of co-ordinating the fuel and power industries. The planning of a fuel policy will take time, but I do not think this can be started properly until the three main fuel industries have been nationalised and there is a responsible organisation for each of them.
III. THE GAS NATIONALISATION BILL

10. The Gas Bill will have many similarities with the Electricity Bill. Its main features should be the following:

Regional Boards

11. There should be about ten Regional Boards as recommended by the Heyworth Committee. In these should be vested the whole of the assets of the gas industry, both for manufacture and distribution.

Central Board

12. A Central Board will be necessary (although the Heyworth Committee did not recommend one) if only because the industry must have a national body to negotiate with other nationalised industries. In electricity, generation and distribution are being separated and the Central Board for electricity has a dual function, namely, the running of generation and the co-ordination of the Regional Distribution Boards. In the case of gas, the Central Board will be mainly a co-ordinating, and perhaps a financing, body. In gas, there is everything to be said for the maximum devolution to, and even below, the Regional Boards.

Compensation

13. The transport and electricity precedents point to adopting a share market value basis for gas. This probably is the right basis, though there is the difficulty of the very large number of small companies with unquoted stocks in this industry. The total cost of acquiring the industry has been estimated at about £200 million (excluding the coke ovens, etc.).

Coke-ovens and by-products

14. There will be various complications in the nationalisation of gas, because the industry makes other products than gas and because gas is made at coke oven plants as well as at gasworks:

(a) The coke ovens and the gasworks operate, basically, the same process - the carbonisation of coal to produce gas, coke and by-products, such as coal-tar and benzole.

(b) The coke ovens carbonise about the same amount of coal per annum as the gasworks (about 20 million tons). About half the capacity is at colliery coke oven plants, owned by the National Coal Board, and about half is at steelworks.

(c) As regards the products, much of the coke oven coke is "metallurgical" coke for blast furnaces, but much competes in the same domestic and commercial markets as gas coke. Increasingly large quantities of gas from both colliery and steelworks coke ovens is passed to gas undertakings for public supply and the coke oven plants will become increasingly important nuclei for gas grids in the coalfields. The by-products of the gasworks and the coke ovens go to the same markets.
15. The preceding paragraph indicated that close co-ordination of the whole field of coal carbonisation is required. This must be an important element in fuel and power policy and it is another reason for the speedy nationalisation of gas.

16. We shall have to consider whether some at least of the National Coal Board coke oven plants should not go over to the Gas Boards. This will be a matter for discussion with the National Coal Board and can, if necessary, be dealt with in the Bill by permissive powers. The Gas Boards should also possibly acquire some of the independent by-product plants.

17. Though there will be important deviations in places, the Bill can, I think, follow the Electricity Bill very closely in many of its detailed clauses. This should considerably reduce the load on the parliamentary draftsmen. There is a good deal of detailed work for my Ministry, such as working out the amendment of the complex statutory code for gas (as in the Schedules to the Electricity Bill). But this is already being done and it presents no serious difficulties. As the policy issues involved in the Bill are fairly simple, the burden on my senior officers should be considerably less than in the case of the Coal and Electricity Bills.

IV. CONCLUSION

I conclude therefore:­

1. There is a strong case for the nationalisation of the gas industry. There is much scope for improving the efficiency of the industry, but little can be done until the existing antiquated structure is replaced. We have the Report of a recent and impartial Committee, the Heyworth Committee, which in 1915 recommended nationalisation of the industry under Regional Boards. The industry is, in fact, dead ripe for nationalisation.

2. The industry has been in suspense as regards its organisation since well before the appointment of the Heyworth Committee. Further delay will intensify the feeling of frustration, particularly in the considerable section of the industry which is at present co-operative. This would prejudice the capital development of the industry, which is already tending to suffer owing to the financial uncertainties of the interim period. A new organisation for the industry must be set up as soon as possible, to guide the capital development of the industry on the most up-to-date lines and to co-operate in the planning of fuel and power policy as a whole.
The Gas Nationalisation Bill will not, in my view, be a very difficult or controversial measure to get through Parliament. Many of the general principles, and also of the detailed clauses, will have been fought out in the case of electricity. The Heyworth Committee has pointed the way to what we shall be doing and the industry is reasonably co-operative. It will be difficult for critics to make any reasoned case against the scheme.

E.S.

Ministry of Fuel and Power, 7, Millbank, S.W.1.

14th April, 1947.
## ANNEX

### STRUCTURE OF GAS AND ELECTRICITY INDUSTRIES - 1944

<table>
<thead>
<tr>
<th></th>
<th>Number</th>
<th>% of sales</th>
<th>Number</th>
<th>% of sales</th>
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<tr>
<td>Municipal undertakings</td>
<td>269</td>
<td>36%</td>
<td>362</td>
<td>59%</td>
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<tr>
<td>Joint boards</td>
<td>5</td>
<td>1%</td>
<td>9</td>
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<td>Statutory companies</td>
<td>406</td>
<td>61%</td>
<td>190</td>
<td>41%</td>
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<tr>
<td>Non-statutory undertakings</td>
<td>367</td>
<td>2%</td>
<td>not nationalised</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,047</td>
<td>100%</td>
<td>561</td>
<td>100%</td>
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</tbody>
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* 161 of the statutory companies and 103 of the non-statutory undertakings accounting for 11% of the sales of gas, were under the control of 11 holding companies.