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Prime Minister

The key papers are

① Nigel Lawson's minute
(flag A)

② Robin Ibbs letter (flag B)

③ CPRS Report (flag C)

Mes 1/12

P.0904

PRIME MINISTER

Electricity Prices
for Industry

BACKGROUND

You are to hold a meeting at 12 o'clock tomorrow with the Ministers most closely concerned to discuss electricity prices. There has been extensive Ministerial and other correspondence on the subject, including a report by the Central Policy Review Staff (circulated as E(82)75) and a letter of 22 October from Sir Robin Ibbs highlighting the problems presented to ICI's operations by differences between electricity tariffs in this country and West Germany. Mr Scholar's letter of 28 October said that you would wish to discuss the issues after the public expenditure announcements had been made (as, of course, they now have).

2. The minute of 30 November from the Secretary of State for Energy argues that it would be wrong to give special help to energy-intensive industries; that electricity pricing should be based on economic criteria; and that if assistance is to be given to electricity-intensive industries it should be given directly. It does, however, suggest that the Central Electricity Generating Board should be authorised to supply the ICI chlorine plant at Runcorn directly; it estimates that this could produce a benefit to ICI of about £1½ million.

MAIN ISSUES

3. It is unlikely that any of the Ministers present will question the central argument of the CPRS report: that there should be no general subsidy of industry by charging uneconomic prices for electricity. Such a course would have damaging effects on the PSBR, would lead to misallocation of resources, and almost certainly would not be cost-effective. Your colleagues are likely also to be sceptical about proposals to help particular industries: they would be hard to confine; and they would



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risk committing this country to supporting indefinitely industries, such as aluminium smelting, in which we are unlikely to be able to compete in the longer term.

4. Nevertheless, it seems clear from the correspondence that some Ministers feel uneasy. Questions that are raised implicitly or explicitly are:

(i) Electricity undertakings in competitor countries (including West Germany, not usually thought of as given to indiscriminate subsidy) seem to be better able to give preference to industrial users than electricity undertakings here. Is this impression fair? If it is, does it reflect greater efficiency, better investment decisions in the past, or a policy of subsidising industry? Are there any useful lessons for us?

(ii) If competitor countries distort their electricity tariffs in order to favour particular industries, is it sufficient for us to refuse to copy them, relying on superior resource allocation ultimately to see us through; or should we take more positive action?

(iii) The conventional wisdom (which has much in its favour) is that if the Government wishes to subsidise industry it should do so overtly. But overt subsidies are much more likely to be condemned by the European Commission. Is this an argument for using less direct methods?

(iv) Is it necessary to treat as sacrosanct the existing statutory prohibition on showing undue preference to different classes of electricity consumer?

5. However natural these questions may be, it is important to bear in mind that the direction in which they tend has serious dangers. It would



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be all too easy to start out trying to make limited concessions to a few industries with a particularly strong case, and end up moving away from economic pricing, at great cost, and with a public row with the Commission if we were not successful in disguising what we were doing.

Future Action

6. It may well be that the meeting will conclude that it would be a mistake to go further than is proposed in the Secretary of State for Energy's minute of 30 November. If so, the electricity departments and the Treasury can be left to work out with the industry the details of tariff structure, financial targets, and so on.

7. But it is possible that the meeting will not be able to resolve all the issues. If the balance of opinion is that there is at least something worth further consideration, you may wish to set up a small group of Ministers to look at the issues. The Chancellor of the Exchequer would be a natural candidate for chairman (assuming that you did not wish to take it on yourself), with the Secretaries of State for Scotland, Industry and Energy, and the Chief Secretary, Treasury among the members. We can offer you further advice if you favour this approach in principle.

PLG

P L GREGSON

Cabinet Office.

1 December 1982



Mr Scholar ← COPY

CABINET OFFICE

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16 November 1982

Reference No: E 0176

Jeremy Clayton Esq,
Department of Energy,
Thames House South,
Millbank SW1P 4QJ

Dear Jeremy,

ELECTRICITY PRICES

We have spoken a couple of times on the telephone about the arrangements for Ministerial discussion of the CPRS report on electricity prices. Following Michael Scholar's letter of 28 October, it has been agreed that the matter should come to E Committee; and there is a convenient slot on Thursday 2 December. This would presumably fit in well with your Secretary of State's need to deal with the subject at a meeting of the NEDC on 8 December.

2. I am, however, concerned that your Secretary of State apparently does not intend to put a paper to E, but to rest on the CPRS report and the existing Ministerial correspondence. First, experience suggests strongly that Ministerial committees - particularly large committees like E - operate better on the basis of a single document setting out the responsible Minister's views on the full range of issues. Secondly, I would have thought that your Secretary of State would wish to indicate to his colleagues the line he proposes to take on 8 December.

3. These considerations point strongly in favour of your Secretary of State circulating a paper (which need not, of course, be very long) for the meeting of E on 2 December. I have consulted Sir Robert Armstrong's office, and they share this view.

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4. I am sending copies of this letter to Michael Scholar at No 10
and to Richard Hatfield here.

Yours sincerely,

Michael Buckley

M S BUCKLEY

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10 DOWNING STREET

From the Private Secretary

28 October 1982

Dear Julian,

Electricity Prices

The Prime Minister has seen a copy of the Secretary of State for Industry's letter to your Secretary of State of 27 October about the CPRS Report on electricity prices for industry and the more specific problems highlighted in Sir Robin Ibbs' letter to the Prime Minister of 22 October.

The Prime Minister thinks it would be useful to discuss the CPRS Report and these other issues after the public expenditure announcements have been made.

I am sending a copy of this to Margaret O'Mara (HM Treasury), John Gieve (HM Treasury), Muir Russell (Scottish Office), Jonathan Spencer (Department of Industry), Richard Hatfield (Cabinet Office) and Gerry Spence (CPRS).

Yours sincerely,

Michael Scholar

Julian West, Esq.,
Department of Energy.

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